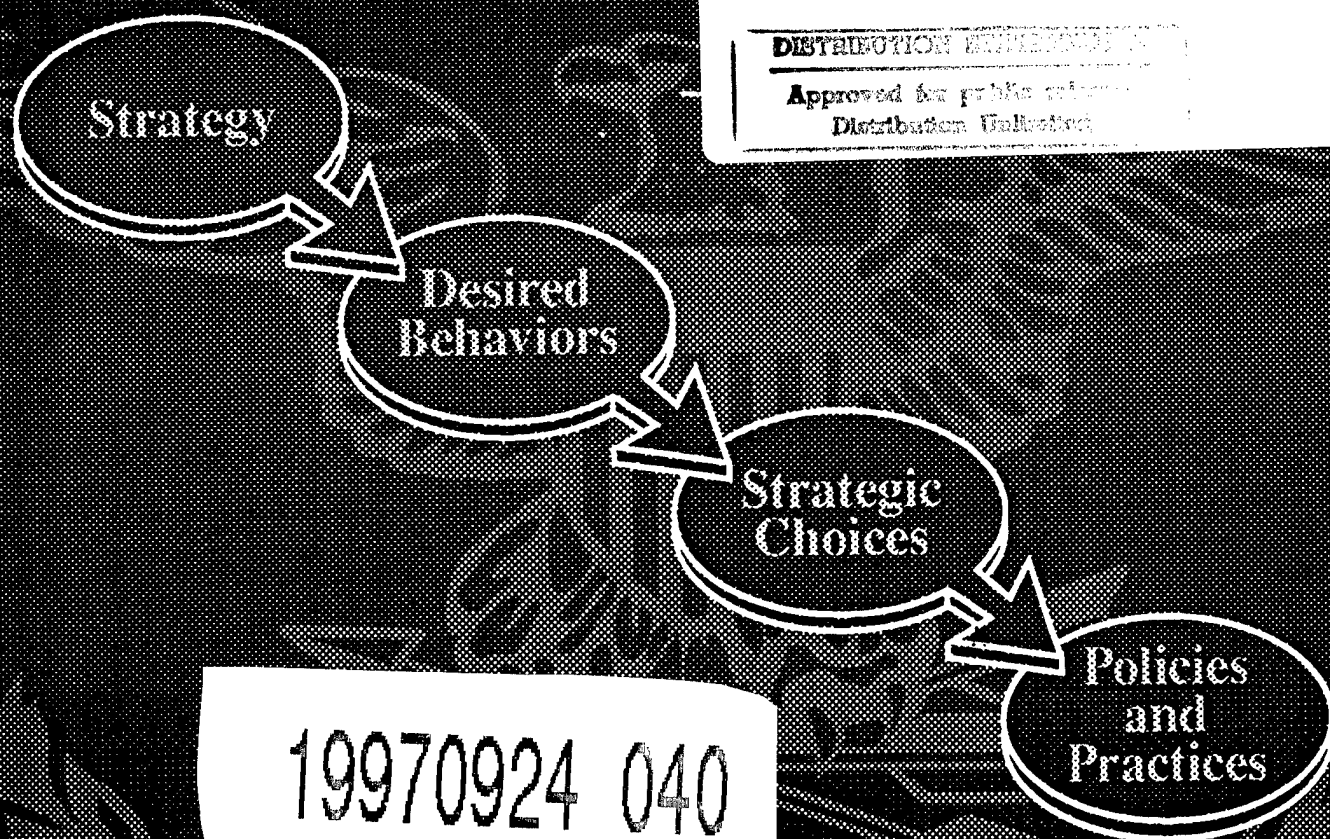


Rewarding, Organizing and Managing People in the 21st Century:

Time for a Strategic Approach



Report of the
8th Quadrennial Review of Military Compensation

June 30, 1997

Executive Report

Rewarding, Organizing
and Managing People
for the 21st Century:
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8th Quadrennial Review of Military Compensation Publications

The 8th Quadrennial Review of Military Compensation published five volumes. The primary volume contains the Executive Summary and the Executive Report. The Main Report comprises three volumes that expand upon the topics in the Executive Report and includes examples showing how the recommendations can be applied in the uniformed services. The final volume contains internal working papers that are the background for some conclusions and recommendations; they contain information not discussed in the other volumes. Shown below are the names and DTIC and NTIS numbers for each volume:

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Time for a Strategic Approach
June 30, 1997*

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STRATEGIC VS. TACTICAL THINKING

Leaders manage their human resources to obtain organizational performance by channeling individual potential into organizational achievement. Research cited throughout this report demonstrates that fundamental – strategic – choices about rewarding, organizing and managing people affect organizational performance.

Organizations – private and public alike – often decide to make changes piecemeal – for example, to create or increase a pay for a particular skill, to restructure the retirement benefit, to employ pay for performance, to eliminate a layer of management or to form into teams – without fully understanding the long-term implications or whether the rest of the human resource management system will enhance or inhibit the effectiveness of the change. As a result, decisions made on an issue-by-issue basis, outside a broader context, often produce unintended consequences or fail to fully achieve the desired ends. A strategic approach forces those tactical questions into a broader context.

A strategic perspective also provides criteria on which to decide the issues or, at least, focuses the debate on what the relevant criteria should be. Difficult tactical issues are often more effectively resolved when the strategic perspective is clear. In addition, a strategic approach enlarges the field of view, such that tactical questions seldom stand alone. They are related to other questions that eventually lead to some fundamental issue in the organization's capability to achieve its desired outcomes.

The most effective organizations over the long term devote time and attention to resolving tactical issues and questions within the broader strategic context of the organization. This report provides a framework for employing a strategic approach in the uniformed services.

8TH QUADRENNIAL REVIEW OF MILITARY COMPENSATION

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8TH QUADRENNIAL REVIEW OF MILITARY COMPENSATION

Executive Summary

Forward-looking
leaders can
build . . . on the
experience of other
organizations,
in thinking
strategically about
human resources.

People are the largest and single most valuable asset of the Department of Defense. Today, leaders are developing doctrine to maintain a world-class military in the face of an extremely dynamic and uncertain environment. Yet, the U.S. military distinguishes itself by *not* employing a strategic perspective in the design of its human resource management systems. Other organizations have set the standard in this area. The department can benefit from the relevant experience of these other organizations. It can also benefit from its own history.

Few organizations emerge unscathed from such radical transformation as the military's, in the early 1970s, from a conscripted to a volunteer force. That change was truly a cultural upheaval, overturning central tenets of the military institution. We often forget that what we now deem a stunning management success got off to a very rocky start. By the late 1970s, "[t]he armed forces were undermanned, we could not attract sufficient numbers of recruits to fill the ranks, recruit quality in terms of test scores and educational levels had reached all-time lows, morale had plummeted, and our career personnel were leaving in great numbers."¹ The Navy did not have enough petty officers to send all of its ships to sea; and the Chief of Staff of the Army coined the phrase "hollow Army" to describe its state. "The peacetime All-Volunteer Force, many concluded, was an unsuccessful experiment, and it was time to draw it to a close."²

What went wrong in those early years? For one thing, the Department of Defense did not recognize the full extent to which its "people" policies and practices could affect desired outcomes. It failed to see that the new defense strategy of the post-Vietnam era required a new system for managing its human resources.

Eventually – practice by practice – the human resource management system evolved to accommodate the change in overall strategy. Eventually, it began to support the needs of commanders. Eventually, the department adapted its compensation, recruiting, training and other policies and practices to forge a high-quality all-volunteer force. During that first decade, however, the military suffered severe, but largely avoidable, trauma owing to the missing strategic perspective. Forward-looking leaders can build on this experience, as well as on the experience of other organizations, in thinking strategically about human resources.

¹ Lawrence Korb, "Military Manpower Training Achievements and Challenges for the 1980s," in *The All-Volunteer Force After a Decade*, William Bowman, Roger Little and G. Thomas Sicilia, eds. (Washington, DC: Pergamon-Brassey's, 1986), p. 6.

² Casper Weinberger, "The All-Volunteer Force in the 1980s: DoD Perspective," in *The All-Volunteer Force After a Decade*, ed. William Bowman, Roger Little, and G. Thomas Sicilia (Washington, DC: Pergamon-Brassey's, 1986), p. 1.

President Clinton chartered the 8th Quadrennial Review of Military Compensation to “look to the future and identify the components of a military compensation system that will attract, retain and motivate the diverse work force of the 21st century.”³ Within this context, the 8th Quadrennial Review of Military Compensation took a *strategic approach* in its research and recommendations.

The report of the 8th Quadrennial Review of Military Compensation describes how the Department of Defense and the services can – and should – take a strategic approach to managing human resources. The 8th Quadrennial Review of Military Compensation found that, in the most effective organizations, all systems – including the human resource management system – are aligned with strategy. Leaders of different parts of a large organization have different strategies. Different strategies require different sets of human resource policies and practices to support them. No common human resource management system can effectively support the full spectrum of strategies leaders employ in an organization as large and diverse as the Department of Defense. This sounds obvious, but only the most successful organizations consciously structure their human resource management system accordingly.

Therefore, rather than trying to prescribe a specific system for the next century, the 8th Quadrennial Review of Military Compensation developed a *process for designing human resource management systems tailored to leaders’ strategies*. To support that process, the multiservice team also developed an integrated framework and a computer model. Finally, it recommends a formal decision-making structure – much like the structure that the Department of Defense employs when designing and testing its major hardware and weapons – to enable the uniformed services to routinely practice strategic human resource management.

What Is Strategic Human Resource Management?

Strategic human resource management is making decisions and taking actions that focus people on achieving organizational goals. According to the professional literature and based on extensive conversations with successful practitioners and leaders, an organization substantially increases its ability to achieve its strategy by deliberately designing a human resource management system to produce the outcomes it desires. Two dimensions distinguish “strategic” from “traditional” human resource management. Vertically, a strategic approach helps leaders align policies and practices to strategy. And horizontally, a strategic approach helps leaders coordinate various policies and practices so they work together as one system. Highly regarded organizations have found that a strategic approach improves the capability of the total enterprise.

Current service policies and practices often operate in isolation from each other. For example, performance appraisals provide essential feedback to members and assist in developing and selecting the leadership for tomorrow, and the compensation

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Different strategies require different sets of human resource policies and practices to support them.

No common human resource management system can effectively support the full spectrum of strategies leaders employ in an organization as large and diverse as the Department of Defense.

³ Section 1008(b) of title 37, United States Code, requires the President to conduct a complete review of the principles and concepts of the compensation system for members of the uniformed services every four years.

... an organization substantially increases its ability to achieve its strategy by deliberately designing a human resource management system to produce the outcomes it desires.

... a strategic approach calls for fundamental change in how leaders ... frame, analyze and make decisions affecting human resources.

system helps to attract and retain skilled personnel. A strategic approach would reach farther, however, by integrating individual policies and practices so they propel the organization in the direction leaders want to take.

Specifically, adopting a strategic approach calls for fundamental change in how leaders in the Department of Defense and the uniformed services frame, analyze and make decisions affecting human resources. A strategic approach builds on – and complements – existing frameworks, processes and systems. By asking and addressing such basic questions as “how can the human resource management system improve organizational performance?” it expands the impact of the largest resource available to the uniformed services – its people.

Why Is A Strategic Approach Needed?

Personnel costs represent nearly 50 percent of the defense budget, yet leaders in the Department of Defense have no institution-wide process for systematically examining future human resource needs or for translating those needs into a strategy.⁴ In contrast, the department’s research, development and procurement community – reflecting only 30 percent of the budget⁵ – uses a formal process and structure to present leaders with acquisition issues and solutions to support future operational needs. In that process, leaders specify their desired outcomes before the system design starts. Then, as systems are designed, developed and tested, actual outcomes are measured against the original vision.

Such a process applied to human resources promises three major dividends. It will facilitate change that the operating environment demands; it will increase leader effectiveness by structuring policies and practices to motivate behaviors leaders want; and it will enhance the effectiveness of major parts of the organization, potentially freeing up resources for other purposes.

The first dividend – facilitating change – is a cultural need. The transition from a conscripted to a volunteer force was a response to the challenge of a changing environment. Other similar changes include redefining the organization’s roles and missions, rethinking how it carries these out, or changing its culture. Leaders, today, face the challenge of these kinds of changes. Recent studies, such as those conducted by the National Performance Review and the Commission on Roles and Missions, underscore the need for a new approach to managing people, as do visionary statements by the uniformed services themselves.

For example, **Joint Vision 2010**⁶ calls for increasingly agile, flexible, responsive organizations; for reexamining traditional criteria governing span of control and organizational layers; for developing organizational climates that reward critical

⁴ Because of its size, the personnel budget receives substantial scrutiny. However, currently, the bulk of this scrutiny falls on the programming and budgeting phases of the planning, programming and budgeting system. There is relatively less focus on how this enormous amount contributes to improving organizational outcomes – and how these resources might better achieve these ends – and little attention devoted to addressing central human resource management questions affected by the department’s future environment, role and direction.

⁵ Not including the direct and indirect personnel costs involved in this community.

⁶ Chairman of the Joint Chiefs of Staff, *Joint Vision 2010*, Washington, DC, July 1996.

thinking, encourage competition of ideas and reduce barriers to innovation; for empowering individual warfighters; and for generating and reinforcing specific behaviors such as judgment, creativity, adaptability, initiative, teamwork, commitment, and innovative strategic and operational thinking. Currently, there is no formal or routine assessment of how the military compensation system and the military's human resource management system, more generally, can motivate such behaviors.

Likewise, **Army Force XXI** places the individual soldier at the center of change, calling for intuitive skills involving vision, innovation, adaptability and creativity; for the ability to simplify complexities and clarify ambiguities; for empowerment of individuals and small teams for initiative and self-management; and for mastery of the use of information.⁷

Air Force 2025 foresees the same impact of new information technologies. Further, the Air Force recognizes the need for "a process that institutionalizes long-range, strategic planning; and encourages, captures and integrates innovative thinking on the use of air and space power," as well as "a coherent, strategic vision."⁸

Achieving the second dividend – increasing leader effectiveness – will require new behaviors (such as those noted above) in the future. Can leaders motivate such behaviors in service members without a change in the human resource management system? Yes: leaders inspire creativity, adaptability, initiative, teamwork, commitment, innovative strategic and operational thinking today. But leaders accomplish all this only at the expense of other leadership tasks. The challenge becomes even more difficult if the leader must overcome the effect of a system that is motivating a different – even contrary – set of behaviors. Just as leaders can inspire behaviors, so too can promotion, compensation, job design and retention practices (to name a few) continuously and powerfully motivate behaviors.

Designing policies and practices to engender desired behaviors frees leaders to perform other tasks that only leaders can perform. In other words, *design systems to accomplish what systems can do, and leave to leaders those tasks that systems can not accomplish.*

The third dividend – enhancing organizational effectiveness – is a constant imperative. Since the end of the Cold War, the services have achieved substantial reductions in personnel. Most organizations have tried to do more with less. Some have redesigned their processes, structures and systems to carry out their missions more effectively. However, the lack of any formal, systematic process to modify human resource policies and practices has limited their ability to realize savings; and it has dissuaded other organizations from trying. Yet for the organization as a whole, changing the way different functions, communities and commands do business can require fewer resources. In other words, these new approaches could free up resources

Just as leaders can inspire behaviors, so too can promotion, compensation, job design and retention practices . . . continuously and powerfully motivate behaviors.

⁷ TRADOC (Training and Doctrine Command) Pamphlet 525-5, *Force XXI Operations, A Concept for the Evolution of Full-Dimensional Operations for the Strategic Army of the Early Twenty-First Century*, August 1994.

⁸ Ronald R. Fogleman and Sheila E. Widnall, *Charter, Special Assistant to the CSAF for Long-Range Planning*, undated.

to meet other needs of the defense strategy (for example, modernization). But to be most effective, these new ways of doing business require changes in all the systems that support them – including changes in compensation and, more generally, the human resource management system.

How do direction-setting efforts such as Joint Vision 2010, Army Force XXI, and Air Force 2025 and new ways of doing business get the most value from the people available? Unfortunately, these visionary frameworks provide only the faintest outlines of the means for finding, organizing, managing and motivating the service members needed to meet 21st-century needs; they assume *leaders* will see and respond to the challenges. The Executive Report of the 8th Quadrennial Review of Military Compensation offers a blueprint for redesigning the human resource management system to assist leaders in effectively meeting those challenges.

The Process

The Executive Report describes a process leaders can use to make their organizations more effective. The process consists of these four steps:

- (1) Define a strategy for the organization.
- (2) Specify the desired outcomes and behaviors that support that strategy.
- (3) Make “strategic choices” regarding the design of the human resource management system.
- (4) Develop policies and practices that are aligned with those strategic choices.

The 8th Quadrennial Review of Military Compensation focused on steps (2) and (3), because they are most lacking today and promise the greatest contribution to enhancing operational effectiveness. Leaders develop and employ strategies; the human resource management function designs and implements policies and practices. The difficulty lies in linking the two. Because these steps are complex, a computer model facilitates this part of the process.

Tailoring a human resource management system to the specific needs of an organization begins with defining strategy. First, what is the mission; then, how does the organization want to go about accomplishing it? In this context, the leader must describe desired role behaviors that support the strategy and desired outcomes intended to follow from the strategy. Because leaders of the organization are in the best position to describe what kind of people are needed, what people need to do and how they need to do it, they play a central role in the process.

Given a set of desired behaviors and outcomes, the organization’s leadership, including human resource leaders, makes strategic choices along over 40 dimensions that characterize a human resource management system. An example of a dimension is the emphasis afforded “fixed pay” versus “variable pay” in the design of compensation. A choice along this dimension is strategic because it shapes the design of the system and influences organizational outcomes. So do the choices of “group” versus

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“individual” evaluations, “narrowly defined” versus “broadly defined” jobs or roles, and so on.

Because these dimensions interact, the first set of strategic choices is unlikely to be completely aligned to produce the outcomes leaders want. To help address this complexity, a computer model estimates the outcomes that a given set of strategic choices is likely to produce. The system designers then compare these estimates with the desired outcomes and modify their strategic choices accordingly. They repeat the process until the estimated and desired outcomes match. Then they use their final set of strategic choices to develop the specific policies and practices that constitute the human resource management system.

The model is, thus, an operational tool and a repeatable procedure for aligning policies and practices with strategy. *It provides, for the first time, a logically consistent framework for systematically evaluating human resource management system designs.* Its new ability to explore and evaluate the effects of these designs complements existing measurement tools. As a result, it can be used to create, compare and modify human resource management systems.

New Roles for Human Resource Leaders

Human resource leaders perform myriad activities within a large organization. They focus on both the day-to-day and the future, while dealing with process and people issues. In a strategically oriented organization, human resource leaders fulfill four roles:

- Strategic partner
- Change agent
- Functional expert
- Service member champion.

In the uniformed services today, the primary emphasis is on the functional expert and service member champion roles. Human resource leaders pursuing these roles carry out activities such as managing endstrength; providing personnel, training and education expertise; administering policies; reinforcing culture; ensuring fair member treatment; and solving service member problems. Their focus is primarily internal, with little attention focused on how they can help commanders of operating units better accomplish their mission. Greater emphasis on the strategic partner and change agent roles would add activities such as aligning policies and practices to respond to operational commanders' needs, ensuring organizational goals are achieved, shaping organizational culture and facilitating organizational change (such as required by service visions), and helping to formulate strategic direction for the organization.

By shifting toward a more strategic role, the uniformed services will join a small but growing number of successful organizations that focus human resource leaders on what the operating units need (this contrasts with the conventional role of simply building efficient human resource management systems). This additional emphasis,

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however, will come only as the result of engaging in additional activities. Because the role of strategic partner will necessarily compete for attention with the more traditional roles and because senior leaders occupy their positions for relatively short periods of time, the uniformed services need a process to incorporate this perspective into a system and to ensure that strategic decisions are carried out over time.

A Formal Structure for Decision Making

Currently, the uniformed services have no systemic way to examine long-range human resource issues or to translate the results of such examination into a clear management strategy. They nevertheless face continuing demands for improved performance – and improved efficiency – both from their own leaders and from the outside. As a first step toward implementing the ideas presented here, the 8th Quadrennial Review of Military Compensation recommends establishing a decision-making council, an expert advisory body, and an explicit process for adopting a strategic approach to human resource management in the Department of Defense. The defense acquisition process, already in place within the department, serves as a conceptual model for the specific recommendations.

A Defense Human Resources Board, chaired by the Under Secretary of Defense for Personnel and Readiness and co-chaired by the Vice Chairman of the Joint Chiefs of Staff, would be supported by the advice of a civilian Strategic Advisory Group for Human Resources. The Defense Human Resources Board would identify changes in the strategic direction of the Department of Defense and describe the general shape of the human resource management system required to effect those changes. In addition, it would do the following:

- Sponsor and support the general design of, or major modifications to, the human resource management system.
- Oversee pilot programs that test major changes in human resource management policies and practices.
- Monitor the full-scale implementation of new human resource management systems.

The new decision-making body and process would provide a formal structure for raising and resolving strategic issues concerning people. Instituting the recommendations elaborated in the Executive Report will enable the Under Secretary of Defense for Personnel and Readiness and other defense human resource leaders to fulfill their roles as strategic partner and change agent in the defense enterprise.

Conclusion

Leaders accomplish their missions by fostering behaviors that support their strategies. The policies and practices of the human resource management system can extend the leader's influence and, thereby, contribute to mission success. As a result of its size

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and diversity, the Department of Defense will need different policies and practices for different parts of the organization. On the other hand, for all parts of the department to work toward the same end requires some common core of policies and practices. To balance these competing, but essential, requirements, the Executive Report recommends a human resource management system designed around “tailored flexibility” – a common core of policies and practices with sufficient flexibility for leaders in each part of the organization to tailor other policies and practices to their needs. The specific policies and practices employed will change as the leaders’ environment, mission, needs and strategies change.

The Executive Report of the 8th Quadrennial Review of Military Compensation describes, in detail, a process for aligning policies and practices with each organization’s strategy. The report’s structure is as follows:

Chapter 1 – Introduction and recommendations sets the stage and summarizes the major recommendations of the 8th Quadrennial Review of Military Compensation.

Chapter 2 – Time for a strategic approach identifies leadership challenges facing the uniformed services. These are likely to be at least as substantial as those arising from the historic transition to the all-volunteer force. It presents three reasons for adopting a strategic approach to human resource management – even though the uniformed services are not currently facing a crisis. Chapter 2 discusses the current practice of human resource management in the Department of Defense and describes the roles of human resource leaders today and as they might evolve.

Chapter 3 – The strategic perspective redefines the scope of what comprises the human resource management system: organizational design, compensation, personnel management, and the organization’s strategic intent. It highlights the importance of the interactions among the elements of the human resource management system (recruiting, assigning, compensating, training, evaluating, etc.), laying the groundwork for a complete process for designing integrated systems.

Chapter 4 – Designing human resource management systems describes a process that allows leaders to align policies and practices to their chosen strategy. It also describes an operational model that ensures that the process is structured and replicable. Both the process and the model are original contributions to the field of strategic human resource management.

Chapter 5 – Tailoring a system for the 21st century describes a human resource management system for the uniformed services in the 21st century. It addresses the need to integrate the efforts of different parts of the organization while granting leaders the flexibility to tailor policies and practices to meet their strategic needs. Chapter 5 sketches an example of how such a system might operate.

... the Executive Report recommends a human resource management system designed around “tailored flexibility” – a common core of policies and practices with sufficient flexibility for leaders in each part of the organization to tailor other policies and practices to their needs.

. . . in the best organizations, change is more often about opportunity.

Chapter 6 – Implementing strategic human resource management proposes ways to establish and sustain the strategic approach. A Defense Human Resources Board will contribute an integrated human resource management perspective to the existing planning and programming processes of the Department of Defense. To support the Board's decision-making, a civilian Strategic Advisory Group for Human Resources will contribute continuity, broad perspective and up-to-date research findings.

Chapter 7 – A vision for human resource management draws a picture of a function in which the needs of leaders of operating units are the central focus.

Change is difficult. Usually it takes a crisis to mobilize an organization. But in the best organizations, change is more often about opportunity. The strategic approach to human resource management recommended in the Executive Report affords an opportunity – in the absence of crisis – to facilitate change in the department's strategic direction, to make its leaders more effective and to enhance its organizational performance.

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No matter what the substance of the report, if it is not communicated clearly, the message loses its impact. Communicating the message in this report is especially challenging. A number of reviewers significantly improved the presentation, but none were as helpful as Betsy Schmidt. Her style shows through in even the most recondite passages; those that remain intellectually impenetrable do so despite her heroic efforts. Special thanks to the Graphics and Presentation Division of the Office of the Secretary of Defense, particularly Kat Ciccotelli-Ward, for significantly improving the visual format and presentation of the report.

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PREFACE

... the 8th Quadrennial Review of Military Compensation developed a process to align all the elements of the human resource management system to obtain the maximum impact from the resources devoted to people.

Fundamentally the biggest challenge in the department today is ensuring that the department changes with the changing world.

— *The Honorable William Perry*
*Secretary of Defense*¹

Section 1008(b), title 37, United States Code, requires the President to conduct a complete review of the principles and concepts of the compensation system for members of the uniformed services every four years. President Clinton signed the charter for the 8th Quadrennial Review of Military Compensation on January 27, 1995, charging it to “look to the future and identify the components of a military compensation system that will attract, retain and motivate the diverse work force of the 21st century.” Based on additional guidance, the 8th Quadrennial Review of Military Compensation took a *strategic* approach in carrying out this task. This task differs from that assigned to previous quadrennial reviews. Rather than focusing on specific issues or perceived problems with the existing compensation (pay) system, the 8th Quadrennial Review of Military Compensation developed a process to align all the elements of the human resource management system to obtain the maximum impact from the resources devoted to people. Thus, during its deliberations, the 8th Quadrennial Review of Military Compensation identified components of *four* separate possible compensation systems for the uniformed services for the 21st century. For each of these four systems, it also identified the corresponding components in organizational design and personnel management required to make the compensation components fully effective. In sum, it identified the components of four separate human resource management systems for the uniformed services.

To ensure that we can handle the future challenges, we need to take a strategic look at how we manage.

— *The Honorable William Perry*
*Secretary of Defense*²

More than assets of the uniformed services, more than resources used to carry out the mission, people are a source of competitive advantage. Because people are critical to future success and because the environment is changing, the uniformed services must continually review how they conduct human resource management and seek out better ways of rewarding, organizing and managing people. Institutionalizing a strategic approach to human resource management will firmly establish the Department of Defense as a leader in attracting, retaining, and motivating the diverse work force of the 21st century.

¹ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

² From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

CHAPTER 1

INTRODUCTION AND RECOMMENDATIONS

... compared to previous reviews, the 8th Quadrennial Review of Military Compensation adopted a more inclusive perspective of compensation and focused greater emphasis on underlying principles and concepts ...

The timing of the 8th Quadrennial Review of Military Compensation provided an opportunity ... to examine how the best organizations are restructuring their compensation systems in reaction to changing operating environments ...

An Overview of the Approach of the 8th Quadrennial Review of Military Compensation

Section 1008(b) of title 37, United States Code, requires the President to direct a “complete review of the principles and concepts of the compensation systems for members of the uniformed services.” The charter of the 8th Quadrennial Review of Military Compensation directed it to “look to the future and identify the components of a military compensation system that will attract, retain and motivate the diverse workforce of the 21st century.”¹ Within the context of this guidance, compared to previous reviews, the 8th Quadrennial Review of Military Compensation adopted a more inclusive perspective of compensation and focused greater emphasis on underlying principles and concepts affecting the compensation system.

A More Inclusive Perspective

The 8th Quadrennial Review of Military Compensation began its review by assessing major environmental trends impacting the military and its compensation system. A revealing, early finding was the surprising scope and magnitude of the changes in compensation policies and practices taking place in other organizations, public and private, to respond to changes in their environment. Compensation was relatively stable until about 1990. Since 1990, however, organizations have been engaged in wide-spread experimentation involving every element of compensation and reward systems, including base pay (salary), pay for performance, benefits and career paths.²

Many of the changes in compensation and reward systems occurred because traditional systems did not meet organizational needs in the new environment; in particular, older policies and practices often worked at cross purposes with other initiatives (for example, total quality management, business process reengineering, employee involvement) designed to improve organizational performance. The timing of the 8th Quadrennial Review of Military Compensation provided an opportunity for the uniformed services to examine how the best organizations are restructuring their compensation systems in reaction to changing operating environments and to consider whether the military pay system should likewise change – if not necessarily in the same way, at least in terms of scope and magnitude.

¹ A copy of the charter is at Appendix I.

² Gerald E. Ledford, Jr., Edward E. Lawler III and Susan A. Mohrman, “Reward Innovations in Fortune 1000 Companies,” *Compensation and Benefits Review*, Vol. 27, No. 4 (July-August 1995), pp. 76-80.

The scope and magnitude of the changes were also significant in other parts of the human resource management system. Another critical, early finding was that private sector enterprises had learned that specific compensation policies and practices – and even entire compensation systems – can not be evaluated as good or bad, effective or ineffective, appropriate or inappropriate in isolation. They can be designed and adequately assessed only in the context of the organization's strategy, structure, and culture they must support – and in light of the other human resource management policies and practices that must work harmoniously with the compensation system to form *human resource management systems* that achieve organizational outcomes. This perspective requires decision makers to consider not just changes to compensation policies and practices but additionally how these changes impact – and are impacted by – other components of the human resource management system. The timing of the 8th Quadrennial Review of Military Compensation also provided the uniformed services the opportunity to consider how decisions regarding compensation could be integrated with the other parts of the human resource management system.

In addition to focusing on attracting and retaining, the charter of the 8th Quadrennial Review of Military Compensation required a focus on how the compensation system can *motivate* desired behaviors. Behaviors are motivated through extrinsic rewards (monetary and non-monetary rewards provided by the organization) and through intrinsic rewards (those provided by the member and stemming, for example, from belonging to the organization or from the work itself).³ The policies and practices of the compensation system (basic pay, special and incentive pays, allowances, awards, benefits and leave, etc.) clearly influence behavior based on such choices as the levels of pay, the form of the pay (fixed pay, variable pay, bonuses or incentives) and the basis of the pay (skill, performance or longevity). However, the policies and practices of the personnel management system (selecting, evaluating, developing, promoting and separating) also influence behaviors indirectly, through their effect on pay, and directly, based on such considerations as the frequency and reason for promotion, the criteria used to evaluate members, the selection for assignments, training and development. Finally, the organizational structure influences behavior primarily through intrinsic rewards based on, for example, the individual's role (broad or narrow), the organization's design (individual or team jobs, functional or process orientation), and governance (the degree of hierarchy, decision-making authority, autonomy).

In fact, the compensation system, by itself, can not directly motivate most desired behaviors. For example, the current compensation system can not motivate performance through higher levels of pay: service members can move to a higher level of basic pay and allowances only as a result of promotion (which is directly dependent on appraisals, assignments, and education, to name a few other intervening policies

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³ Intrinsic rewards appear to be particularly important (though probably significantly understudied) as a motivator in the military context. See Al Robbert, Brent Keltner, Mark Spranca and Beth Benjamin, *Differentiation in Military Human Resource Management* (RAND, MR-838-OSD), 1997, pre-edit copy, publication forthcoming.

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... this report
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system as
composed
of three
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management and
organizational
design.

and practices) or longevity (which is not based on performance).⁴ Even to the extent that compensation does motivate behavior, other policies and practices influence the effectiveness of that motivation. For example, if the promotion system does not reward advanced education, increased pay for promotion will not motivate individuals to seek that education, even though that may be a behavior desired by the organization. To ignore the effect of these other policies and practices significantly reduces the effectiveness of individual changes to the compensation system.

A comprehensive review of the compensation system, therefore, requires that it include “anything that an employee [service member] may value and desire and that the employer [the department] is able or willing to offer.”⁵ Every component that can provide something that service members value ought to be included in the design of compensation systems for the 21st century. In addition, to the degree that other policies and practices complement or inhibit the value that service members place on compensation, these, also, need to be included in the design of compensation systems for the 21st century. Therefore, the 8th Quadrennial Review of Military Compensation designed a *human resource management system* for the military for the 21st century with compensation as an integral, but not the sole, component.

Consequently, this report talks in terms of the elements of the “human resource management system,” not just in terms of the elements of “compensation.” It views the human resource management system as composed of three components – compensation, personnel management and organizational design. Although the report could have been written to focus on a narrow definition of the compensation system, the 8th Quadrennial Review of Military Compensation concluded that the design of a compensation system to motivate the work force of the future would be seriously compromised if the other components of the human resource management system were not taken explicitly into account and given equal consideration. In effect, every discussion of the “human resource management system” carries with it an implicit – and often explicit – discussion of the “compensation system.” While on the surface, the report may appear to show less focus on compensation than past reviews, in fact, compensation is an elemental part of each reference to the “human resource management system” throughout the report.

In this executive report, and more fully in the main report, this highly interdependent nature – and the concurrent importance of compensation – is captured

- In the discussion of the theoretical underpinning of the recommendations (based largely on research focused on the compensation system as the most studied component of strategic human resource management).
- In the basic premise underlying the entire report – that *all* the policies and practices of the human resource management system must be aligned with the strategy of the organization, and with each other.

⁴ RAND has developed a conceptual model that demonstrates this conclusion in considerable detail. That model, based on expectancy theory, shows the elements of the personnel management system mediating nearly every element of compensation in terms of its effect on behavior. The influence of the promotion system is remarkably strong in this regard in the military. See Robbert *et al.*, Section 2.

⁵ Richard I. Henderson, *Compensation Management* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1994), p. 5.

- In the discussion of dimensions that characterize a human resource management system (in which a quarter of the dimensions are directly related to compensation).
- In the design of the computer model that captures the interrelationships (and in which a third of the inputs to the model are directly related to compensation and in which the role of intrinsic motivation plays a key part).
- In the outline of the components of four separate compensation systems (together with the other components of a human resource management system) that are aligned with four, different organizational strategies that could be applied to organizations in the uniformed services in the 21st century.

An Emphasis on Principles and Concepts

This executive report also focuses heavily on principles and concepts, with somewhat less emphasis than previous reviews on changes to specific policies and practices. Although often remaining unstated (or, at least, unemphasized), principles and concepts are important in terms of their impact on the organization: “[t]he core reward system principles that an organization develops should represent a standard for the organization – that is, the organization should always test its behavior against them. They are something that the organization gives to the [service member] that allows the [service member] to trust and depend upon the reward system commitments of the organization.”⁶ The 7th Quadrennial Review of Military Compensation stated, “Compensation principles should serve a long-term purpose much like military doctrine: a foundation of theory, philosophy and widely held enduring beliefs to guide both policy and management.”⁷

The 8th Quadrennial Review of Military Compensation agrees with this definition. It proposes a “doctrine” for designing compensation systems for the uniformed services for the 21st century; this doctrine is deployed in the context of the human resource management system. This doctrine is composed of a new set of roles for the human resource leader in the future (reflecting a new philosophy of the contributions the human resource management function can make to organizational performance); a theoretically based, empirically informed, conceptual framework for taking a strategic approach to human resource management; an operational process for aligning the policies and practices of the compensation system and the other components of the human resource management system with the organization’s strategy; and a decision-making structure for carrying this process out.

The strategic approach to human resource management embedded in this doctrine is key to fulfilling the charter of the 8th Quadrennial Review of Military Compensation. The charter directed it to design a “compensation system that will attract, retain and motivate the diverse workforce of the 21st century.” The conclusion resulting

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management
system.

⁶ Edward E. Lawler III, *Strategic Pay: Aligning Organizational Strategies and Pay Systems* (San Francisco, CA: Jossey-Bass Inc., 1990), pp. 39-40.

⁷ Office of the Assistant Secretary of Defense (Force Management and Personnel), *Report of the Seventh Quadrennial Review of Military Compensation*, August, 21, 1992, p. 151.

... the application of the strategic approach to different parts of the uniformed services will necessarily suggest that different compensation systems (and human resource management systems) are appropriate in different parts of the organization.

... one size does not fit all.

from the application of the doctrine to the environment of the uniformed services in the future was that no *single* compensation system (or human resource management system) can accomplish that end. Rather, the application of the strategic approach to different parts of the uniformed services will necessarily suggest that different compensation systems (and human resource management systems) are appropriate in different parts of the organization. So the 8th Quadrennial Review of Military Compensation proposes a *process* that can effectively tailor the design of human resource management systems to meet the unique needs of different parts of the uniformed services.

As opposed to recommending changes to specific policies and practices that would apply throughout the uniformed services, this executive report describes how the process can be applied to four hypothetical organizations; the components of four different compensation systems (together with the other components of the human resource management system) to support each of these organizations are outlined in the main report. Even these do not form the basis of specific recommendations for change, however. Such recommendations would result from actual organizations applying the process to reflect their unique strategies, unique operating environments, and unique missions and tasks. The process described and recommended in this report provides a sound foundation on which the uniformed services can develop specific recommendations tailored to the needs of different parts of their organization.

To summarize the major line of reasoning that led to a greater focus on the doctrine than on recommendations for changing specific policies and practices:

- Behaviors are motivated through extrinsic rewards (monetary or non-monetary rewards provided by the organization) and intrinsic rewards (those stemming from the work itself).
- The compensation system, by itself, can not directly and effectively motivate most behaviors.
- Even to the extent that the compensation system can motivate behaviors, its effectiveness is influenced by all other components of the human resource management system.
- Different organizations within the uniformed services can improve organizational performance by tailoring compensation policies and practices, as well as other human resource management policies and practices, to their unique strategies.
- Therefore, no one, single compensation system (or human resource management system) or set of policies and practices is best for all parts of the uniformed services; one size does not fit all.

Need for a New Approach

In light of the above, this report proposes a fundamental change in the way the uniformed services describe, think about, and shape decisions affecting human resources. This change will expand the impact of the largest single resource available to the uniformed services – people.

No structured process exists today to enable the uniformed services to manage human resources *strategically* – to align the elements of the compensation system (and the elements of the other components of the human resource management system) with organizational objectives and to design policies and practices to motivate behaviors that enhance organizational performance. The largest share of the uniformed services' budget is for the pay of people. Yet no process exists to parallel the strategic process that assists leaders in developing and allocating other resources (for example, weapon system acquisition). This deficiency can drain resources and prevent the services from reaping the full potential of their people. The lack tends to go unnoticed for two reasons. The current system has produced the highest quality force ever, so leaders do not think about opportunities lost. Also, there is no standard against which to compare "what is" with "what might have been."

This report suggest the payoffs that a strategic approach can realize; it provides tools for designing a system that can align service members' energies and goals with the strategic direction of the organizations in which they serve; and it recommends immediate steps the uniformed services should take to institutionalize strategic human resource management.

A strategic perspective pushes back the boundaries of what is possible. It expands the scope of human resource management from such traditional elements as the levels of pay and benefits, the focus of pay, the basis for pay, as well as recruiting, assignment, evaluation, and the like, to include less traditional elements, such as organizational structure, job design, and strategic intent. It explores the interactions among the human resource management function and other functions. It focuses on the operational commander and on what is important to him or her, not just on how efficiently the human resource management system is operating. A strategic perspective enables leaders to employ integrated systems focused on achieving specific organizational objectives. It allows leaders to tailor policies and practices to achieve outcomes that contribute directly to organizational performance.

The need for a new approach to managing people has already been established by several reviews. Recent studies by the National Performance Review and the Commission on Roles and Missions have recommended major changes in the way government and, specifically, military organizations do business. The uniformed services themselves have observed changes occurring in the environment and responded with calls for fundamental changes in direction – Joint Vision 2010, Army Force XXI, and Air Force 2025 – that look to the future and set the overall direction of military

No structured process exists today to enable the uniformed services to manage human resources *strategically* – to align the elements of the compensation system (and the elements of the other components of the human resource management system) with organizational objectives and to design policies and practices to motivate behaviors that enhance organizational performance.

I don't think anybody, especially the top leadership, discussed what they want the [military human resource management] system to do. I never remember a discussion, certainly since I've been Chief, or personnel chief, on what it was we wanted this system to do. Never.

— Admiral Jeremy M. Boorda
Chief of Naval Operations
United States Navy ⁸

⁸ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

Expand the scope of the human resource management function.

Adopt a more flexible human resource management system.

Adopt strategic human resource management . . . by instituting a formal structure and a well-defined, streamlined decision-making process.

organizations. These efforts offer glimpses of the role of service members in the 21st century. However, they offer no blueprint for redesigning the human resource management system to attract, retain and motivate these people. This report complements those visionary documents by squarely filling that need.

Recommendations

This report makes the following major recommendations:

- Expand the scope of the human resource management function.
 - Adopt a more strategic role, including active participation by human resource leaders in strategy formulation.
 - Increase emphasis on and accountability for working with leaders of operating units to tailor human resource management systems to achieve the outcomes leaders need to accomplish their organization's strategy.
- Adopt a more flexible human resource management system.
 - Define a set of core policies and practices that applies across the department to support common strategic ends.
 - Implement a human resource management system design process to align the policies and practices of the human resource management system to the strategy of an organization.
 - Provide appropriate flexibilities to subunits to develop specific policies and practices to support their particular organizational strategy and operating environment.
- Adopt strategic human resource management within the Department of Defense by instituting a formal structure and a well-defined, streamlined decision-making process. The process should complement existing departmental processes and tie explicitly into the planning phase of the planning, programming and budgeting system (PPBS). Establish the following:
 - A Defense Human Resources Board, chaired by the Under Secretary of Defense for Personnel and Readiness and the Vice Chairman of the Joint Chiefs of Staff, for raising and resolving strategic human resource management issues; for sponsoring specific strategic changes needed to support the unique needs of organizations in different parts of the uniformed services; and for articulating and championing those changes within and external to the department.
 - A civilian advisory body, the Strategic Advisory Group for Human Resources, to support the Defense Human Resources Board, composed of corporate leaders, academics, and former defense civilian and military leaders to provide a broad base of expertise in the application of strategic human resource management in leading edge organizations.

- A formal decision-making process to evaluate and monitor major changes to the human resource management system, guided by the Under Secretary of Defense for Personnel and Readiness and Defense Human Resources Board members. This process would:
 - ≈ Sponsor and support the general design of, or major modifications to, the human resource management system in different parts of the Department of Defense.
 - ≈ Oversee pilot programs that test major changes in human resource management policies and practices.
 - ≈ Monitor the full-scale implementation of new human resource management systems.

Service Perspectives

During the conduct of the 8th Quadrennial Review of Military Compensation, the services raised many important issues, offered useful advice, guidance and direction and helped shape the final product in significant ways. Near the end of the effort, the services and the joint staff reviewed a draft of the executive report. Based on their formal comments and on subsequent informal discussions with the service principals, the uniformed services generally support the strategic approach and the process recommended for implementing that approach. In fact, the Department of the Army employed the approach and the process as part of their effort to enhance their officer personnel management system to meet the needs of the 21st century. The services also raised several concerns. Most of their concerns were addressed by modifications found in this report: those related to the appropriateness of using civilian practices in a military organization, the uniqueness of the military culture, and the importance of core values in the design of human resource management systems. The 8th Quadrennial Review of Military Compensation holds disparate viewpoints on some other concerns; those are addressed below.

Although the services say they need greater flexibility to design and tailor human resource management systems to achieve service-unique requirements, some initially expressed concern that the Defense Human Resources Board could become another layer of bureaucracy that would hamper, rather than facilitate greater service flexibility in the context of Department of Defense-wide requirements. The executive report was modified to clarify the intent behind the board. The board's primary function is to facilitate and support service generated initiatives for change; it is not intended to assume responsibility for "corporate" decisions made more appropriately at the service level. Further, the board is intended to provide a senior level forum for addressing and sponsoring *strategic* human resource management issues, while avoiding bureaucracy, expediting necessary change, and capitalizing on existing service capabilities to address service-unique issues. The Air Force, however, remained concerned that the board duplicates capabilities already present in the services. This and similar concerns should be further addressed during the development of the charter for the board.

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The Air Force expressed concerns with the idea of tailoring human resource management systems below the service level, particularly as such tailoring might affect service identity. The process recommended in this report *can* be applied at the service level to provide a more effective human resource management system for an individual service (compared to applying the process to the uniformed services, as a whole). In the long run, however, the 8th Quadrennial Review of Military Compensation believes overall organizational effectiveness can be substantially enhanced by tailoring parts of the human resource management system to the needs of organizations below the service level – without adversely affecting service identity, values, or culture. Clearly, the identity, values and culture of an organization are critically important. The services are in the best position to weigh these considerations against the determination of the degree to which tailoring will benefit the service overall; the speed with which they choose to move in that direction; and the specific commands, communities, functions, or other organizational subunits to which tailored policies and practices would best apply. The strategic approach and the process recommended are not intended to prescribe where and when they should be applied, but rather to help the services address these issues in a structured and logical way in their search for more effective organizations. Consequently, the 8th Quadrennial Review of Military Compensation does not foresee a dramatic, immediate transformation of the human resource management system of the uniformed services but rather, a shift, gradually over time, to increased flexibility determined by the needs of the service.

Benefits of the Recommendations

A strategic approach will help leaders make *better decisions*. Instituting a formal structure will force fundamental questions to the surface. It will provide a shared image of a human resource management system to move toward, and a framework within which to evaluate recommended changes – a framework to guide the day-to-day decisions and policies that, in solving immediate problems, also shape the evolution of the system. A strategic approach will make *leaders more effective*. Policies and practices will be designed to achieve desired organizational outcomes, so that the system frees leaders from tasks *the system* can perform. Finally, a strategic approach will visibly *signal the importance of people* to the department and place the Department of Defense on the cutting edge of human resource management.

CHAPTER 2

TIME FOR A STRATEGIC APPROACH

Few organizations undergo change of the magnitude represented by the transition, in the early 1970s, from a conscripted to a volunteer force; it was a change affecting the most fundamental tenets of the military institution. Yet, initially, few alterations were made to the human resource management system to support the transition. The method of accession changed, as did entry-level pay, but little else. Only after almost a decade of deterioration in the quality and capability of the force did the Department of Defense gradually adjust its system to reflect a radically different way of recruiting and managing its people. The magnitude of that crisis can not be overstated. By the late 1970s, "[t]he armed forces were undermanned, we could not attract sufficient numbers of recruits to fill the ranks, recruit quality in terms of test scores and educational levels had reached all-time lows, morale had plummeted, and our career personnel were leaving in great numbers."¹ At the time, the Navy did not have enough petty officers to send all of its ships to sea; and the Chief of Staff of the Army coined the phrase "hollow Army" to describe its state. As a result of these conditions, "the peacetime All-Volunteer Force, many concluded, was an unsuccessful experiment, and it was time to draw it to a close."²

In implementing the transition to an all-volunteer force, the Department of Defense failed to employ a strategic approach, such as is recommended in this report. A strategic approach could have anticipated new requirements and integrated systemic changes from the start that would have greatly reduced costs and improved effectiveness.

For example, a strategic approach would have explicitly identified the kinds of people needed for the future and the means to attract, to retain, and to motivate them. Although significant attention was directed to the general supply of youth and to the demand in terms of the technical *aptitudes and skills* required, the *behaviors* required of service members in an all-volunteer force turned out to be significantly different than the behaviors required,

Culture is an attribute; sometimes even an asset; but *never* an excuse. In some ways, culture represents the way things used to be done, and we just can't tolerate that.

—Norman R. Augustine
President and Chief Executive Officer
Lockheed Martin Corporation³

¹ Lawrence Korb, "Military Manpower Training Achievements and Challenges for the 1980s," in William Bowman, Roger Little and G. Thomas Sicilia, eds., *The All-Volunteer Force After a Decade* (Washington, DC: Pergamon-Brassey's, 1986), p. 6.

² Casper Weinberger, "The All-Volunteer Force in the 1980s: DoD Perspective," in William Bowman, Roger Little and G. Thomas Sicilia, eds., *The All-Volunteer Force After a Decade* (Washington, DC: Pergamon-Brassey's, 1986), p. 1.

³ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

or at least accepted, in a conscripted force. Both officers and non-commissioned officers needed different behaviors to lead volunteers effectively, not only at entry but throughout a career.

Although entry level pay increased significantly, the rest of the human resource management system remained, fundamentally, the same. Eventually, the human resource management system evolved – practice by practice – to accommodate the change in overall strategy (from conscription to an all-volunteer force). Eventually, it began to support the needs of commanders. Eventually, accession (hiring) processes, the compensation system, and other elements of the human resource management system also evolved. Along the way, however, the system incurred trauma, in large part because of the lack of a strategic perspective from the outset.

Had the desired behaviors been explicitly identified and considered in the beginning of the transition, it is possible the set of human resource management policies and practices *eventually* instituted (which have proven remarkably effective in engendering these behaviors) would have been instituted sooner – avoiding what became, in the first decade of the all-volunteer force, a crisis. There is no doubt such foresight would have paid dividends. The success of policies eventually implemented have led most thoughtful commentators to recognize the all-volunteer force as having become an outstanding success.

New Strategic Direction

The most significant change the uniformed services can make is to embark on a new strategic direction – to design the future. The transition from a conscripted to a volunteer force was such a change. Other changes of this magnitude involve such wrenching tasks as redefining the organization's purpose, rethinking its mission, generating new core competencies, or changing its culture. Although conscription is unlikely to return in the foreseeable future, the uniformed services, today, face pressure from both internal and external sources to consider changes of this magnitude. Internally generated strategies and doctrine such as Joint Vision 2010, Force XXI, and Air Force 2025 all point to the need for a dramatically new way of doing business.

Joint Vision 2010 portrays a future in which the armed forces are “fully joint: institutionally, organizationally, intellectually, and technically.”⁵ To exploit emerging technologies and to respond to diverse threats and new enemy capabilities require

We all agree we have the best military in the world today. the companies that I have seen get in the worst trouble are the ones that were at one time the best.

— Norman R. Augustine
President and Chief Executive Officer
Lockheed Martin Corporation⁴

The most significant change the uniformed services can make is to embark on a new strategic direction – to design the future.

⁴ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

⁵ U.S. Joint Chiefs of Staff, *Joint Vision 2010* (Washington, DC: Joint Chiefs of Staff, July 1996), pp. 8-9.

increasingly agile, flexible, responsive organizations. The vision requires the services to reexamine traditional criteria governing span of control and organizational layers; to develop organizational climates that reward critical thinking, encourage competition of ideas, and reduce barriers to innovation; to develop empowered individual warfighters; and to generate and reinforce specific behaviors such as judgment, creativity, adaptability, initiative, teamwork, commitment, innovative strategic and operational thinking.

In a like manner, *Force XXI* calls for major philosophical, theoretical, materiel, and organizational changes – from how the Army thinks about war to how it fights, leads and succeeds on future battlefields. This vision commits the Army to “design[ing] organizations and develop[ing] capabilities that will allow it to be rapidly tailorable, rapidly expandable, strategically deployable, and effectively employable as part of a joint or multinational team” in all operational environments, both war and non-war.⁶ *Force XXI* places the soldier at the center of change, calling, like Joint Vision 2010, for new and intuitive skills involving vision, innovation, adaptability, and creativity; the ability to simplify complexities and clarify ambiguities; empowerment of individuals and small teams for initiative and self-management; and mastery of the use of information.

Similarly, *Air Force 2025* foresees a revolutionary change resulting from transformational information technologies. Like Joint Vision 2010 and *Force XXI*, the Air Force envisions the need for fundamentally new ways of managing people to meet these challenges. Further, the Air Force recognizes the need for “a process that institutionalizes long-range, strategic planning; and encourages, captures, and integrates innovative thinking on the use of air and space power,” as well as “a coherent, strategic vision” that charts “actionable courses to the future.”⁸

When you add up these changes – in mission, in size, in resources, in threat – you find that it essentially defines a complete change in our environment. From the way we do business, to the tools of our trade, to how we conduct war, to how we plan for the future – the change we see is fundamental and far-reaching.⁷

Additionally, the Government Performance and Results Act requires the uniformed services and other agencies to develop and complete strategic plans by fiscal year 1997.⁹ The plans will include specific missions and goals – and strategies for achieving them through people, information, and other resources – consistent with

⁶ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5, Force XXI Operations: A Concept for the Evolution of Full-Dimensional Operations for the Strategic Army of the Early Twenty-First Century* (Ft. Monroe, VA: TRADOC, August 1994), p. 18.

⁷ Honorable Sheila E. Widnall, Secretary of the Air Force, “Today’s Air Force: Dealing with Hard Realities,” remarks at the Durand Lectureship in Public Policy, Washington, DC, May 1, 1996, quoted in *Air Force Update, Your Air Force Today*, May 1996, p. 1.

⁸ General Ronald R. Fogleman and Honorable Sheila E. Widnall, Secretary of the Air Force, *Charter, Special Assistant to the CSAF for Long-Range Planning*, undated.

⁹ U.S. General Accounting Office, *Transforming Civil Service: Building the Workforce of the Future* (GAO/GGD-96-35) (Washington, DC: U.S. General Accounting Office, December 1995).

the recommendations of the National Performance Review.¹⁰ Further, many defense analysts foresee the armed forces adopting new roles; for example, major expansion of missions involving diplomatic initiatives of defense alliances, ad hoc coalitions, and international organizations; and nation-assistance roles directed both toward other nations and to needs within the United States.¹¹

Meeting these self-initiated and externally imposed mandates requires a process that effectively links strategies to outcomes – through the policies and practices of the human resource management system. There are, in addition, identifiable benefits from developing such a process.

Benefits of a Strategic Approach to Human Resource Management

Successful organizations *choose* a strategic approach to human resource management for three primary reasons. Strategic human resource management:

- *Facilitates change*, especially major change in strategic direction – by directly and indirectly influencing the organization and its culture.
- *Makes leaders more effective*, freeing them from tasks the human resource management system can be designed to perform – by consistently communicating and reinforcing the commander's intent.
- *Enhances organizational performance* – by identifying the coordinated set of policies and practices required to support major changes in the way an organization carries out its mission.

Facilitates Change

A successful leader is “one who is *able to transform an organization* when situations call for such action.”¹³ Transformations are the kinds of fundamental changes in strategic direction that are resisted as a matter of course. Inflexible, reactive

As we implement this vision, . . . [o]ur organizational climate must reward critical thinking, fostering the competition of ideas, and reduce structural or cultural barriers to innovation.¹²

Meeting these self-initiated and externally imposed mandates requires a process that effectively links strategies to outcomes – through the policies and practices of the human resource management system.

A strategic approach to human resource management that aligns policies and practices with desired outcomes helps leaders transform the organization and its culture.

¹⁰ The National Performance Review encourages agencies to examine and reengineer processes; to share information; to search for benchmarks and best practices within government and the private sector; to learn to manage emerging knowledge-based data systems; and to integrate cross-functional core processes and to develop the capability to more effectively focus all defense forces and resources on existing and emerging missions. References: U.S. Office of the Under Secretary of Defense, Comptroller, Memorandum for Directors of Defense Commissary Agency, Defense Finance and Accounting Service, Defense Information Systems Agency, Defense Logistics Agency, Defense Printing Service, Defense Mapping Agency, and Commander, U.S. Army Corps of Engineers, Subject: “Government Process Classification Scheme” (Washington, DC, June 5, 1996), with attachments.

¹¹ Paul D. Miller, *Both Swords and Plowshares*, Institute for Foreign Policy Analysis, National Security Paper #10 (Hollis, NH: Puritan Press, 1992), p. 27.

¹² U.S. Joint Chiefs of Staff, *Joint Vision 2010*, pp. 32-33.

¹³ Warren G. Bennis and Burt Nanus, *Leaders: The Strategies for Taking Charge* (New York: Harper & Row, 1985); cited in J. Steven Ott, ed. *Classic Readings in Organizational Behavior* (Belmont, CA: Wadsworth Publishing Company, 1989), p. 244 [emphasis added].

A strategic approach to human resource management enables leaders to extend their influence . . .

. . . if parts of the Department of Defense are to “revolutionize the way they do business” . . . support systems – including the human resource management system – originally designed to support the old way of doing business, will need to be redesigned for these parts of the organization . . .

human resource management systems tend to further inhibit or prevent change. When dramatically different behaviors are required of service members – such as the behaviors required for fundamental changes in direction envisioned in Joint Vision 2010, Force XXI, and Air Force 2025 – and the human resource management system is not changed, service members will continue to exhibit the old behaviors. A strategic approach to human resource management that aligns policies and practices with desired outcomes helps leaders transform the organization and its culture.

Makes Leaders More Effective

Similarly, leaders “influence the attitudes, beliefs, and *especially the behavior* of one or more other people.”¹⁴ How well members of the organization respond to the influence of the leader determines, in (large) part, how effective the leader is. But the human resource management system influences behavior as well (through how it rewards, organizes and manages people) and, if designed to achieve the behaviors sought by the leader, can free the leader to devote his or her talents to other leadership tasks – tasks that *systems* can not accomplish.

According to General Electric’s chairman, Jack Welch, if you define the right tasks, put the appropriate persons in charge of them, and back them up with the right kind of reward system, you do not need to be a good manager to obtain excellent results.¹⁵

Leaders can rely on the system itself to produce and reinforce the behaviors critical for organizational success. A strategic approach to human resource management enables leaders to extend their influence by designing and applying a human resource management system tailored to their specific organization’s strategic objectives.

Enhances Organizational Performance

Leaders are accountable for enhancing the performance of the organization by implementing processes and systems, many of which are initiated from outside of the human resource management function.¹⁶ Yet, peak overall performance is attainable only through cooperative and supportive behavior of the people affected by the changes. When the compensation system or the other components of the human resource management system fail (or are unable) to support desired behaviors, these changes often fail to attain their claimed benefits. For example, if parts of the Department of Defense are to “revolutionize the way they do business” (as suggested by the Quadrennial Defense Review), support systems – including the human resource management system – originally designed to support the old way of doing business, will need to be redesigned for these parts of the organization; if they are not, the “revolution” is

¹⁴ J. Steven Ott, ed. *Classic Readings in Organizational Behavior* (Belmont, CA: Wadsworth Publishing Company, 1989), p. 244 [emphasis added].

¹⁵ Arnold C. Hax and Nicolas S. Majluf, *The Strategy Concept and Process: A Pragmatic Approach*, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 1996), p. 347.

¹⁶ For example, Total Quality Management (TQM) and Corporate Information Management (CIM).

likely to fall short of its intended goal. In an era of tight resource constraints, an organization must ensure that its processes are as efficient as possible, and that all the supporting systems – including the human resource management system – contribute to that efficiency. To do otherwise is to squander resources that would have a greater impact if employed elsewhere.

Combining these three reasons, a strategic approach to human resource management enables leaders to decide what they want the human resource management *system* “to do” and to translate those decisions into policies and practices that influence the overall effectiveness of the uniformed services. Strategic human resource management leverages the organization’s ability to reward, organize and manage its people to maximize organizational performance.

Leading effectively in the continuously changing environment demands leaders “wring every ounce of capability from every available source.”¹⁷

Human Resource Management in the Department of Defense Today

As it currently operates, the human resource management process within the Department of Defense concentrates primarily on the programming and budgeting phases of the planning, programming, and budgeting system, with little explicit attention to addressing fundamental questions about the department’s future environment, role and direction.¹⁹

In contrast, the department’s acquisition community has a process and structure for presenting acquisition management issues and solutions to leaders in response to the *future* operational needs of the uniformed services.²⁰ Specific desired outcomes are identified before the system design is started. As systems are designed, developed, and tested, actual outcomes are determined and measured against the desired outcomes.

Leaders who take a strategic approach design their organizations around the confluence of their visions and certain features of the external environment that they must accept. A strategic approach to human resource management makes it possible for leaders to “design the future” – and “[i]t is easier to design the future than it is to predict it.”¹⁸

... a strategic approach to human resource management enables leaders to decide what they want the human resource management *system* “to do” and to translate those decisions into policies and practices that influence the overall effectiveness ...

¹⁷ U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 8.

¹⁸ Paul Bracken and Raoul Henri Alcala, “Whither the RMA: Two Perspectives on Tomorrow’s Army,” U.S. Army War College, July 22, 1994, p. 1.

¹⁹ Within the department as well as outside it, both pundits and serious, experienced observers often say that “the first P [i.e., planning] in PPBS is silent.” See, for example, Carl H. Builder and James A. Dewar, “A Time for Planning? If Not Now, When?” *Parameters: US Army War College Quarterly*, Vol. XXIV, No. 2 (Summer 1994), p. 4. Builder and Dewar observe, “As they do about the weather, perhaps, everyone complains about planning, but no one does anything about it. There is nothing new about lamenting either the quantity or quality of planning in American military institutions.” They advance the hypothesis that “planning was neglected because the stasis of the Cold War resolved most of the uncertainties that are properly the central occupation of planning; and since planning was thus made relatively easy, planners confused planning with programming and making plans” (p. 5).

²⁰ President’s Blue Ribbon Commission on Defense Management, *A Quest For Excellence: Final Report to the President* (Washington, DC: President’s Blue Ribbon Commission on Defense Management, 1986).

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... changing a
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productive at
worst.

Unlike the acquisition community (which influences 30 percent of the defense budget ²¹), the human resource management community (which influences 50 percent) has no institutionalized process for systematic, periodic examination of *future* human resource requirements, nor for translating those requirements into a well-articulated human resource management strategy. The current human resource management process compels leaders to address short-term needs, focused largely on total manpower requirements (numbers of people) and quality (measured in terms of scores on the Armed Forces Qualification Test and high school graduation) – weak links, at best, to the organizational outcomes desired by department-wide and subunit strategies.

Consequently, leaders make decisions based primarily on historical retention patterns and budgetary constraints, using detailed officer and enlisted models to assist in efforts to recruit and retain sufficient quality service members to meet *current and budget year* requirements.

In the area of compensation, for example, the uniformed services each year investigate numerous initiatives, relating to such issues as housing and subsistence allowances, quality of life, or pay raises. These initiatives, many of which significantly affect the members of the uniformed services, are generally evaluated on their individual merits; yet rarely are organizational outcomes or linkages within the total human resource management system considered.

The cross-functional implications of major change to today's pay structure mandate that planning and policy initiatives to restructure our system somehow seek and involve expertise beyond the manpower and personnel function. ²²

Because the elements of compensation (as well as the other components of the human resource management system) are composed of a number of highly interdependent relationships, changing a single practice by itself may be ineffective at best and counter-productive at worst. If only one practice is changed, the other parts of system will continue to generate the same behaviors as before the change, inhibiting, ameliorating or offsetting the desired effect. As a result, "*ad hoc* change remains the norm today, with most pay proposals emanating from the individual services as new needs arise, ... tending to perpetuate the problem." ²³

In addition, existing compensation policies and practices are so intricately linked to implicitly accepted assumptions about traditional military service that far-reaching changes to them are seldom viewed favorably. Table 1 ²⁴ summarizes some of the major features of the current uniformed services compensation system, compares the policies and practices with those in the private sector, and identifies some long-standing assumptions that these practices influence or support across the department.

²² Brigadier General James W. McIntyre, Office of the Assistant Secretary of Defense (Force Management and Personnel), Memorandum for Assistant Secretary of Defense (Force Management and Personnel), Subject: "Compensation Planning: Future QRMCs," July 1, 1992.

²³ McIntyre.

²⁴ The idea for and the majority of substance in this table is attributable to the suggestions of Gerald E. Ledford, Jr., of the Center for Effective Organizations, University of Southern California.

Civilian systems serve as valuable sources of ideas to inform decisions about the design of human resource management systems for the uniformed services. However, the infrequently challenged assumptions underlying the human resource management system of the uniformed services often militate against consideration of successful practices employed by other organizations, even when changes in the environment may have invalidated some of the assumptions. On the other hand, the uniformed services rally around a unique and powerful set of *core* values that reflect their fundamentally different reason for being and the specific circumstances in which they operate. Consequently, the policies and practices found in other organizations are seldom directly applicable in their entirety to the uniformed services.

The process recommended in this report can help the uniformed services capitalize on the successful experience of other organizations by forcing to the surface the fundamental assumptions underlying the current system, by evaluating those assumptions in the light of the organization's strategic direction, and by tailoring systems to achieve the services' unique strategic needs, while preserving and even enhancing the shared values of the uniformed services. This is a critically important issue, and it is discussed in greater detail in Chapter 5.

The process recommended in this report can help the uniformed services capitalize on the successful experience of other organizations . . .

Table 1 – Analysis of Current Military Reward System

CURRENT REWARD SYSTEM ELEMENT	COMPARISON TO PRIVATE SECTOR	LONG-HELD ASSUMPTIONS REINFORCED BY CURRENT MILITARY REWARDS
Base pay (salary)		
Many grades	More levels than in newer "broad banded" pay systems	Hierarchy is critical; rank is important; service members develop vertically
Flat pay gradation (ratio of bottom to top of the pay system)	Much flatter than in private sector	Internal equity and ethic of selfless service are important
Progression through pay grades (career movement)		
Seniority/time in grade is important factor	More emphasis than in private sector	Internal equity is important
Up or out system	Used in some firms	Merit and competition are critically important
Short careers are common	Atypical of private sector	Youth matters in war
Frequent change in assignments	Few private sector firms are comparable	Service identity is more important than unit identity; breadth of experience is important
Pay for performance		
Promotion, not pay, is the major individual performance reward	Merit pay is far more typical of private sector	Selfless service and internal equity are more important than pay; therefore, deemphasis of pay
Non-Monetary Recognition for performance		
Very extensive use for individuals and units	Far more than in private sector	Celebrating performance reinforces pride and ethos of selfless service; variable pay strikes at egalitarianism ethos
Benefits		
High value relative to base pay	Far more than is typical in private sector	Extensive security alleviates family concerns during extended absences; offsets burdens/exigencies of military service

Finally, some evidence suggests that the current human resource management system works *against* behaviors envisioned as necessary in the future studies mentioned earlier.²⁵ For example, findings reported as part of a recent RAND study, based on focus groups and service member surveys, indicated that empowerment, creativity, and adaptability are seldom perceived as desirable behaviors in the current environment. Further, service members reported that two closely related desirable behaviors – "making difficult judgment calls" and "outstanding performance" – are often "punished."²⁶ This raises unsettling questions about whether the military forces will find themselves in the same position as they were in the 1970s, with human resource practices lagging years behind strategic changes stemming from recent reviews.

²⁵ Joint Vision 2010, Army Force XXI and Air Force 2025.

²⁶ RAND research in support of the 8th QRMC identified two major classes of desirable behaviors which are punished. The first involves difficult judgment calls about whether to take the initiative or follow orders, and whether to be honest or loyal. The second involves outstanding performance. Outstanding performers are often given extra duty and sometimes even prevented from moving to another assignment that would be good for their career. See Al Robbert, Brent Keltner, Ken Reynolds, Mark Spranca and Beth Benjamin, *Differentiation in Military Human Resource Management* (RAND, MR-838-OSD), 1997, p. 28, pre-edit copy, publication forthcoming.

Strategic Compensation and Strategic Human Resource Management

So if a strategic approach is not being taken today, how can an integrated human resource management system be developed for the uniformed services? Little specific information on processes to design an integrated human resource management system was found. Most of the literature reviewed, to the extent it touched on processes at all, discussed them in terms of how to design compensation systems. Unfortunately, these compensation system processes were either too specific or were written at a conceptual level not directly applicable to the design of an entire human resource management system. However, the literature did stimulate thinking and introduced some helpful frameworks. It emphasized both the feasibility of taking a strategic approach for compensation and, at the same time, the need to broaden the perspective to that of human resource management, generally. Specifically, a common theme of the literature is that elements of the system must be aligned with the organization's strategy and among themselves if the organization is to maximize performance.²⁸

Management must ensure individuals know their roles, then it must recognize and reward people for what they contribute. If you reward and recognize people consistently, they will behave consistently. If you're pushing for change, you have to change the reward and recognition system.

— Paul A. Allaire
Chairman and Chief Executive Officer
Xerox Corporation²⁷

... elements of the system must be aligned with the organization's strategy and among themselves if the organization is to maximize performance.

Roles of Human Resource Leaders

For human resource leaders in the uniformed services to address the fundamental questions about the department's future (such as those posed by the processes described above, whether applied to compensation systems or the entire human resource management system), they must expand their roles. Human resource leaders perform myriad activities within an organization. They have both a day-to-day (operational) and a future (strategic) focus. In addition, they deal with both structural (process) and emotional (people) issues. The framework in Figure 1 categorizes these activities into four roles that human resource leaders fulfill in a strategically oriented organization:²⁹

- Strategic partner.
- Functional expert.
- Service member champion.
- Change agent.

²⁷ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

²⁸ A summary of many of the leading ideas in the literature is presented in Appendix II.

²⁹ David Ulrich, "Creating Strategic Partners Out of HR Professionals," SHRM Annual Conference, August 1995.

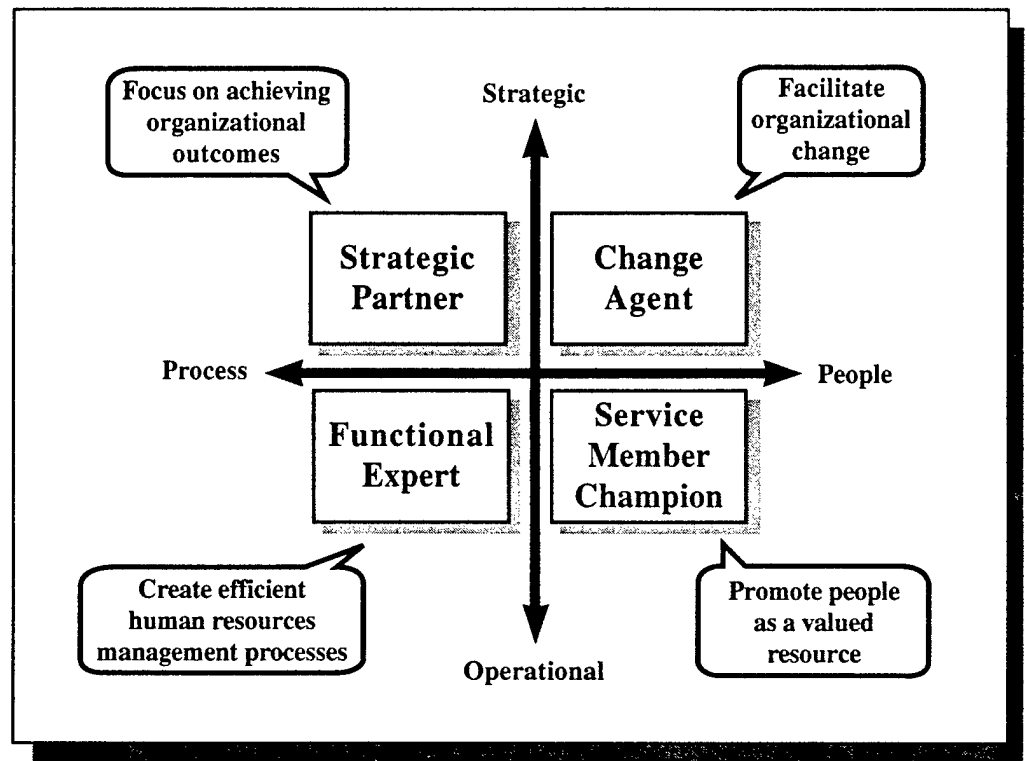


Figure 1 – The Roles of Human Resource Leaders

Figure 2 lists activities that human resource leaders in the uniformed services perform today. Although not intended to be a complete listing of all the activities, the figure reflects the current emphasis placed on the roles of functional expert and service member champion.

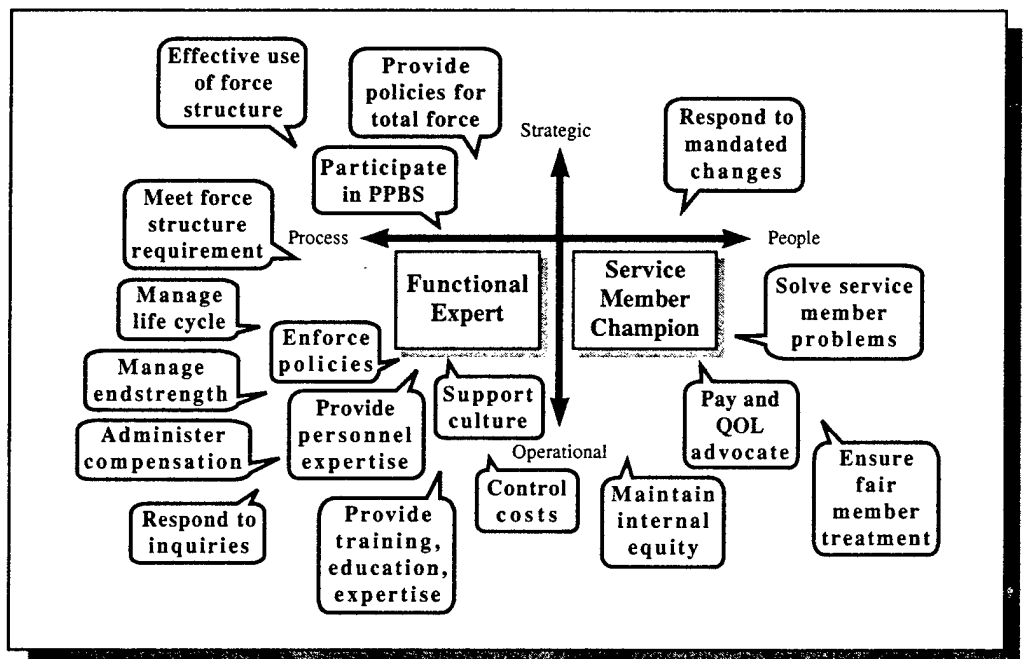


Figure 2 – What Do Human Resource Leaders Do Today?

Emphasis on a strategic role requires new activities supporting not only the role of strategic partner, but also the role of functional expert and change agent. Figure 3 suggests *additional* activities that human resource leaders must perform when taking a strategic approach.

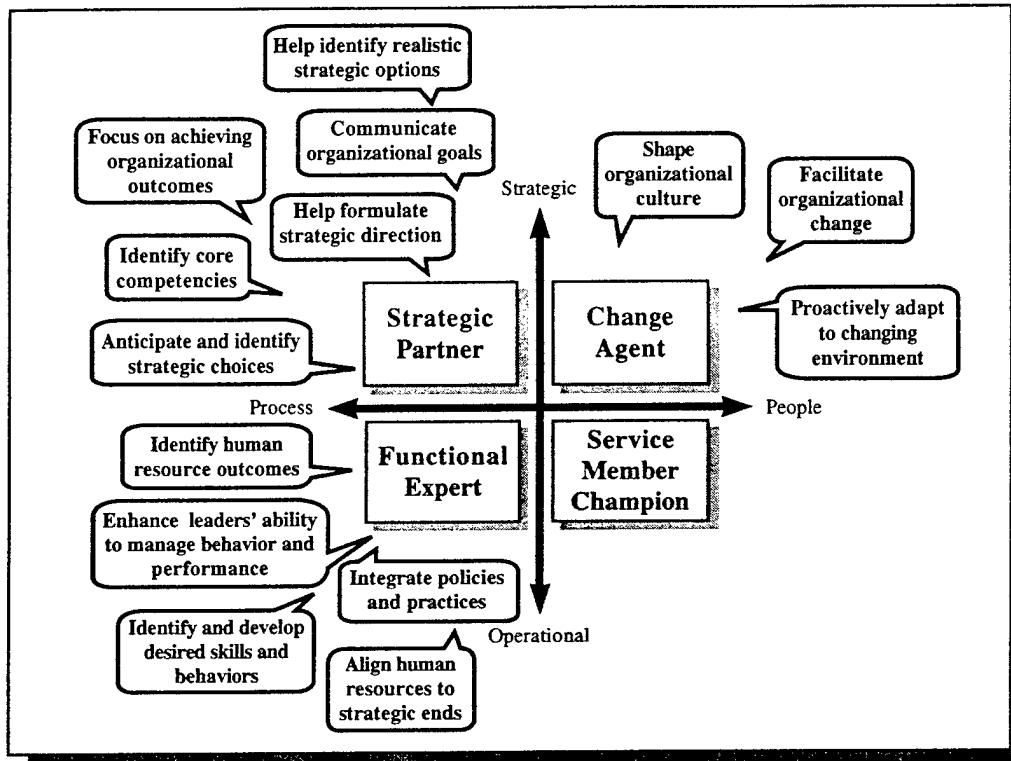


Figure 3 – What Else Will Human Resource Leaders Do?

By shifting emphasis toward a more strategic role for the human resource leader, the uniformed services would join a small but growing number of successful organizations that have reoriented the focus of their human resource leaders. But this shift in emphasis – or more correctly stated, this additional emphasis – will come only as the result of engaging in additional activities.

A specific application of the different perspectives to the issue of officer personnel management under Joint Vision 2010 is shown in Figure 4. The questions most often addressed are typical of those a functional expert might ask, focusing on policies and practices to attract and retain the

One recent study of large corporations and another study which focused on a cross section of firms found that the major focus of human resource functions is on cost control with respect to health care and on a host of other administrative issues. . . . Missing almost entirely from the list of issues were such key organizational performance areas as improving productivity, improving quality, and increasing the ability of the organization to bring new products to market.³⁰

³⁰ Edward E. Lawler III, *Strategic Human Resources Management: An Idea Whose Time Has Come*, Center for Effective Organizations Publications G95-1(277) (Los Angeles, CA: University of Southern California, January 1995), p. 2.

requisite skills and numbers. These are important questions, but they have potentially far less impact on the overall effectiveness of Joint Vision 2010 than other, more strategic, questions. Can Joint Vision 2010 be implemented without considering the strategic questions raised? Certainly. The larger issue, however, is whether the human resource management system can be designed to enhance organizational performance under Joint Vision 2010. A strategic perspective can help ensure the effectiveness of the human component of Joint Vision 2010 will be fully realized.

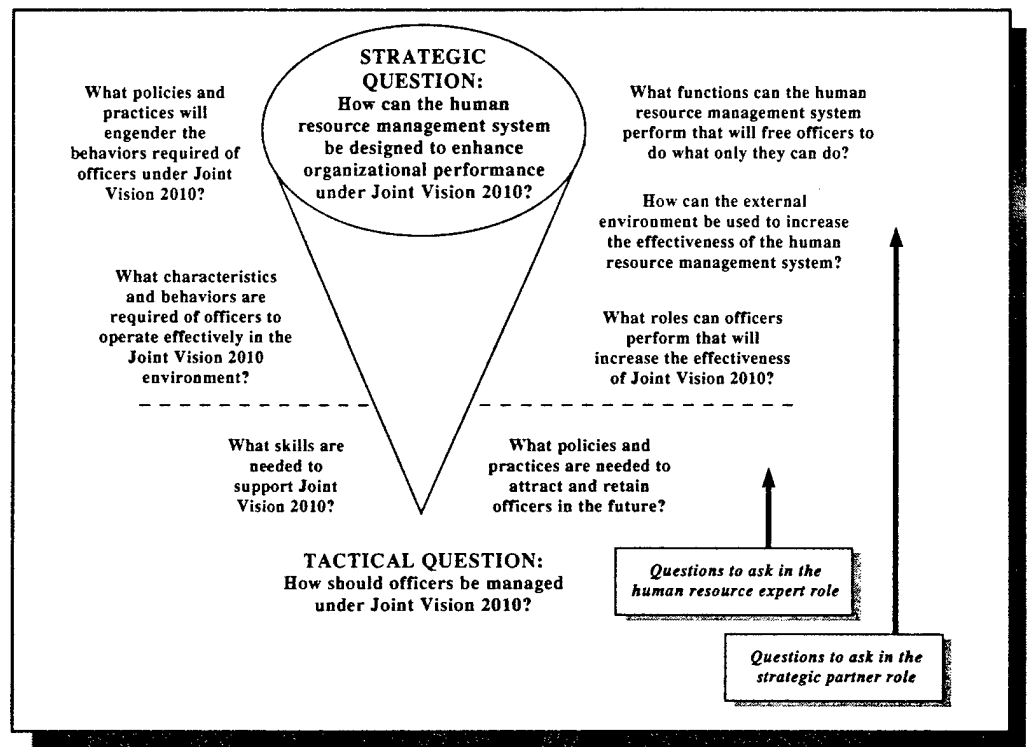


Figure 4 – Tactical and Strategic Questions for Human Resource Leaders Prompted by Joint Vision 2010

CHAPTER 3

THE STRATEGIC PERSPECTIVE

Strategic human resource management is a disciplined effort to produce fundamental human resource management decisions and actions that shape and guide what a human resource management system is, what it does, and why it does it.

The goal of a strategic approach is to proactively develop strategy in “a disciplined effort to produce fundamental management decisions and actions that shape and guide . . . an organization.”¹

Within the strategic planning process, a strategy is a concept for relating choices . . . of future military capabilities (means) to decisions about purposes (ends) for which those military capabilities should be acquired.²

Strategic human resource management is a disciplined effort to produce fundamental human resource management decisions and actions that shape and guide what a human resource management system is, what it does, and why it does it.

Strategic human resource management has two essential components:

- The first component establishes a common direction for human resource management in the organization and produces fundamental human resource management decisions. It includes:
 - The articulation of a human resource management vision.
 - The delineation of a general system design for the human resource management system.
 - The specification of human resource management strategy for aligning the elements of the human resource management system to the corporate and subunit strategies and with each other.
 - The identification of desired behaviors and outcomes and the selection of appropriate policies and practices to support them.

The result of this component of strategic human resource management is an integrated functional strategy for vertically and horizontally aligning policies and practices of the human resource management system to achieve desired organizational outcomes.

¹ John M. Bryson, *Strategic Planning for Public and Nonprofit Organizations* (San Francisco, CA: Jossey-Bass Publishers, 1988), p. 5.

² Carl H. Builder, *The Army in the Strategic Planning Process: Who Shall Bell the Cat?* (RAND Report # R-3513-A) (Santa Monica, CA: RAND, 1987), p. 7. According to Builder, strategic planning in the military should address the following fundamental questions:

- What are the military (as opposed to political) objectives of our forces if they are forced to fight?
- What forces are required to fulfill those expectations?
- What risk is the national leadership willing to accept as to the adequacy of those forces or to other consequences attending their use?

- The second component implements the policies and practices required for the organization to realize the full potential of its human resources in support of corporate and subunit strategies.

The human resource management function necessarily exists within the context of the overall organization. This chapter describes how the human resource management function *influences* and *is influenced by* the rest of the organization. It describes how three different levels of strategy contribute to organizational success and how these different levels must be integrated. It also introduces the concept of aligning human resource management policies and practices with the organization's strategy, the central theme of strategic human resource management.

Influence of the Human Resource Management Function

Although other functions also reach across the enterprise, the human resource management function has a pervasive effect on organizational performance. This influence stems from the impacts that the human resource management system has on an organization's people *and* its ability to magnify the effectiveness of other processes and systems in the organization. This influence is shown graphically in Figure 5.

... the human resource management function has a pervasive effect on organizational performance.

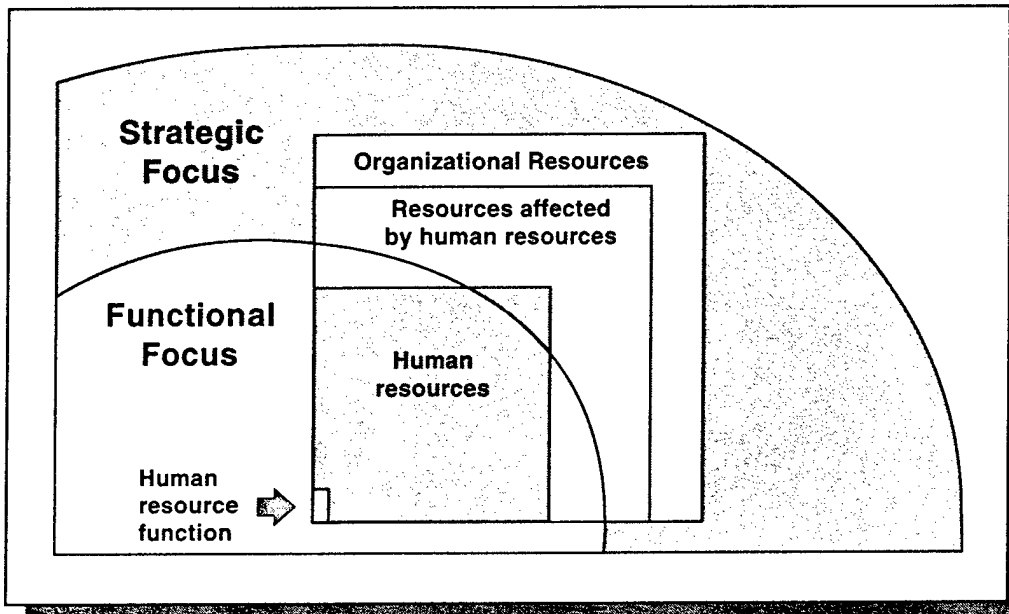


Figure 5 – The Influence of the Human Resource Management Function

The overall resources of an organization have several components:

- The resources directly devoted to carrying out the human resource management function (generally a minuscule portion of the total resources).
- The actual human resources of the organization (the largest single category of resources in many organizations, including the uniformed services).

- The other organizational resources affected by human resources (for example, the equipment and systems, the effectiveness of which is influenced by how people use them).
- Other resources (such as, facilities and land).

Figure 5 depicts the notional relationship of these resources.

In the uniformed services, the human resource management function currently focuses on improving functional outputs³ – for example, attracting high-quality recruits, increasing retention, ensuring fair and equitable promotion policies, and managing manpower strengths. Important considerations, all; however, by limiting its perspective to this domain, the human resource management function can not reap the full potential of people. From a strategic perspective, the focus of the human resource management function necessarily shifts from *human resource management* output to the desired outcomes *of the organization*.

This emphasis on the desired outcomes of the organization is the focus of a strategic approach to human resource management.

Another important implication of the pervasive effect of the human resource management system is its ability to effectively communicate the organization's core values. A human resource management system should be based on "overarching human resource philosophies, which specify the *values* that inform an organization's policies and practices."⁴ Core values are the essential and enduring tenets of an organization.⁵ They are deeply held beliefs that define what an organization stands for and that articulate what the organization intends to hold firm, even as changes occur in its environment and the way it does business. The nature of core values implies that they are small in number and shared by all members of the organization. Shared core values bind people together to achieve common ends.

... policies and practices are perhaps the organization's most visible means of communicating core values and codifying them into its culture.

For these reasons, it is critically important to explicitly consider an organization's core values when designing the human resource management system.⁶ The policies and practices that comprise this system influence behaviors – including the behaviors required by the core values of the organization. These policies and practices are perhaps the organization's most visible means of communicating core values and codifying them into its culture. Thus, core values precede and create a foundation for the policies and practices with which the organization executes its operations. They are the foundation for the organization's strategy, as well.

³ "Outcomes" are those major end results the organization is designed to produce that have value in and of themselves to the "customers" of the organization. "Outputs" are intermediate results the organization is designed to produce that contribute to organizational outcomes in identifiable ways, but that have no value in and of themselves to the "customers" of the organization.

⁴ Susan E. Jackson and Randall S. Schuler, "Understanding Human Resource Management in the Context of Organizations and Their Environments," *Annual Review of Psychology*, Vol. 46 (1995), p. 238.

⁵ James C. Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York, NY: Harper Business, 1994), p. 73.

⁶ The core values for the Department of Defense and the four military services are described in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach* (Washington, DC: 8th QRMC, June 30, 1997), Appendix II.

Levels of Strategy

A strategic approach employs the resources of the organization to obtain the outcomes sought by the organization's overall strategy. Large complex organizations like the uniformed services have several related, though different levels of strategy – corporate, subunit and functional. Each of these levels contributes to organizational outcomes in a different way.

The overall strategy of the Department of Defense, analogous to *corporate-level* strategy, defines the “businesses” the department is involved in and allocates resources among these “businesses” or subunits. *Subunit strategy*, the responsibility of the operating units within the organization (for example, the Unified and Specified Commands, the services, the defense agencies, etc.), determines how to employ the resources available in the context of the subunit's environment to best achieve its specific mission. The Department of Defense is so large and diverse that more than one “corporate” level may exist or several levels may be combined into a “corporate” level – for example, the corporate level could include the department at the service level and above, with component major commands, agencies, etc., representing the strategic subunits.⁷ Regardless of the composition of the different levels, however, each level of strategy informs strategy at lower levels.

Another, general level of strategy – the *functional* level – “deals with developing the necessary functional competencies in finance, administrative infrastructure, human resources, technology, procurement, logistics, manufacturing, distribution, marketing, sales and services needed to sustain competitive advantage.”⁸ Functional strategies support the corporate and subunit strategies and ensure the capabilities to develop the organization's unique competencies reside in each function.⁹ Within the uniformed services, functional strategy – particularly as it applies to the human resource management function – is generally disconnected from overall corporate and, more specifically, from subunit strategy. Recognizing the influence of the human resource management system, this report provides a process to establish that connection.

Large complex organizations . . . have several related, though different levels of strategy – corporate, subunit and functional. Each of these levels contributes to organizational outcomes in a different way.

Integrating Strategies

The strategies of various levels and functions of the organization must support the desired overall organizational outcomes. That is, the different levels of strategy must all be *vertically integrated*, with each strategy supporting the levels above it. At the same time, the strategies of subunits or functions at the same level in the enterprise must be integrated *horizontally*. That is, the strategies of the subunits must be integrated to ensure all major operating units are working toward the common corporate

⁷ These subunits are called “strategic business units” in the literature; this report uses “strategic subunits” or simply “subunits.” Possible examples of strategic subunits in the uniformed services include the unified commands, major commands, the support agencies and services, the acquisition community, individual research labs, the medical community, a personnel command and service headquarters. A corporate strategy would govern the overall organization – composed of a delineated set of strategic subunits; each strategic subunit might have its own organizational strategy focused on its particular mission, resources and environment.

⁸ Hax and Majluf, p. 7.

⁹ Hax and Majluf, p. 25.

... the human resource management system is *vertically aligned* when its policies and practices are designed to motivate the behaviors required to support the organization's overall strategic intent.

... aligning organizational strategy and human resource practices increases performance and effectiveness.

end and complementing each other where appropriate and possible to do so;¹⁰ this integration is the responsibility of the corporate entity. Also, the strategies of the functions within a subunit must be horizontally integrated to ensure all the resources of the subunit support the subunit's strategic intent; this is the responsibility of the individual subunits.

The concepts of vertical and horizontal integration of the various levels of strategy are critical to the success of any large, diverse organization. Although the concept of integration is necessary to set the context, the focus of this report is on a similar concept – *alignment* – that applies to the human resource management system.

Aligning Policies and Practices

First, the human resource management system is *vertically aligned* when its policies and practices are designed to motivate the behaviors required to support the organization's overall strategic intent. A basic tenet of contemporary thinking among academic researchers and human resource professionals is that aligning organizational strategy and human resource practices increases performance and effectiveness. The consensus is that alignment of human resource management policies and practices with the strategy of the organization can generate a "sustained competitive advantage"¹² that leads to success, particularly in an increasingly complex environment.

[u]ltimately ... the main concern when designing and implementing pay [human resource management] strategies is the extent to which these are conducive to improved [organizational] performance.¹¹

Several research studies that have considered the relationship between policies and practices and strategy have focused on compensation – as opposed to the entire human resource management system. In particular, an extensive examination by Gomez-Mejia and Balkin of the empirical evidence revealed that organizations with different corporate and business unit strategies have different patterns of compensation (different sets of policies and practices). Further, from that same review, "empirical evidence supports the theoretical expectation that compensation strategies can make a significant contribution to firm performance, whether measured perceptually or objectively."¹³

¹⁰ At the highest level of the department, this means horizontally integrating each of the service's strategies; and at lower levels, it means integrating the strategies of, for example, service major commands, such as Air Combat Command, Air Education and Training Command and Air Force Materiel Command.

¹¹ Luis R. Gomez-Mejia and David B. Balkin, *Compensation, Organizational Strategy, and Firm Performance* (Cincinnati, OH: South-Western Publishing Co., 1992), p. 113.

¹² Regardless of the source of motivation to excel, the goal of the uniformed services is the same as that of private sector organizations: to do what they do better than anyone else. This is the essence of competitive advantage. If the organization is not accomplishing an activity better than anyone else, its leaders should rethink why they are doing it at all.

¹³ Gomez-Mejia and Balkin, p. 146.

More broadly, the existing studies examining the relationship of human resource management policies and practices, in general – not just compensation practices – to organizational performance find similar results.¹⁴

Second, the human resource management system is *horizontally aligned* when the policies and practices are designed to work in harmony with each other. The elements of the human resource management system (including rewards, recruiting, assessment, assignment, job design, organizational structure, training, performance evaluation, etc.) are interrelated; they comprise a *system* that generally adjusts to changes in its parts or to the environment in which it operates.

For example, an organization might implement a program of pay for performance with the expectation that members will be motivated to increase their productivity. However, even though the organization requires collaboration to generate the desired productivity, members attempting to maximize their reward may engage in undesirable activities designed to make them look good at the expense of others. Tying performance evaluations to team outputs or redesigning jobs, for example, can minimize or avoid these unintended consequences. The systemic nature of the human resource management system must be considered to do this effectively. In fact, the design of the current compensation system has intentionally or unintentionally influenced the other components of the human resource management system, as well. Table 2¹⁶ highlights the implications of the current uniformed services compensation system on other policies and practices, describes the magnitude of the investment (compared to the private sector) required in these other components as a result, in large part, of the design of the compensation system,

The element of alignment or fit, too often, is missing in the human resource management systems of organizations. All too frequently human resource managers search for the best way to pay people, the best way to develop them, the best way to select them, and so forth. The result has been a function that is dominated by subject matter experts who have a particular approach to sell. Too often, they do not understand the overall human resource function, much less the overall operations of the organization, as a result they can not design human resource systems to fit an organization's strategy.¹⁵

... the human resource management system is *horizontally aligned* when the policies and practices are designed to work in harmony with each other.

¹⁴ See, for example, Allan Bird and Schon Beechler, "Links Between Business Strategy and Human Resource Management Strategy in U.S.-Based Japanese Subsidiaries: An Empirical Investigation," *Journal of International Business Studies* (First Quarter, 1995), pp. 23-46; and Mark A. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal*, Vol. 38, No. 3 (June 1995), pp. 635-672. Also, the following articles in the *Academy of Management Journal*, Vol. 39, No. 4 (August 1996): Brian Becker and Barry Gerhart, "The Impact of Human Resource Management on Organizational Performance: Progress and Prospects," pp. 779-801; John E. Delery and D. Harold Doty, "Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency, and Configurational Performance Predictions," pp. 802-835; Mark A. Youndt, Scott A. Snell, James W. Dean, Jr. and David P. Lepack, "Human Resource Management, Manufacturing Strategy, and Firm Performance," pp. 836-866; Rajiv D. Banker, Seok-Young Lee, Gordon Potter and Dhinu Srinivasan, "Contextual Analysis of Performance Impacts of Outcome-Based Incentive Compensation," pp. 920-948; John T. Delaney and Mark A. Huselid, "The Impact of Human Resource Management Practices on Perceptions of Organizational Performance," pp. 949-969; and Daniel R. Denison, Stuart L. Hart and Joel A. Kahn, "From Chimneys to Cross-Functional Team: Developing and Validating a Diagnostic Model," pp. 1005-1023.

¹⁵ Lawler (January 1995), p. 8.

¹⁶ The idea for and the majority of substance in this table is attributable to the suggestions of Gerald E. Ledford, Jr., of the Center for Effective Organizations, University of Southern California.

and highlights changing uniformed service needs in each of these other policies and practices (suggesting changes that may be beneficial, but often resisted, because of the rigidity of the compensation system).

Table 2 – Uniformed Services Compensation: Implications, Private Sector Comparison and Needs

IMPLICATIONS OF UNIFORMED SERVICES COMPENSATION SYSTEM FOR OTHER HUMAN RESOURCE PRACTICES	INVESTMENT MADE: UNIFORMED SERVICES VERSUS PRIVATE SECTOR	TRENDS IN UNIFORMED SERVICES NEEDS
Staffing Centralized systems required; common pay system causes difficulty in recruiting and retaining those with skills valued highly in civilian market; many levels of hierarchy needed to support vertical development; ethic of selfless service used as recruiting tool.	Much greater	<ul style="list-style-type: none"> • Tougher selection criteria; greater ability, technical competence <ul style="list-style-type: none"> – Use of assessment centers – More diversity – Flatter organizational structure – Fewer NCOs, officers – Getting information to lowest level possible; more self management
Training Very extensive systems required to support high turnover, reassignment, and promotion cycles.	Much greater	<ul style="list-style-type: none"> • More technical content; greater use of information technology • More individualized learning outside classroom • Just in time (JIT) training • More simulation/virtual reality • More “soft” skills training
Performance Evaluation Accurate systems are critical because the main long-term reward is provided through promotion.	Much less – for developmental purposes Greater – for evaluation for promotion; standardization takes time	<ul style="list-style-type: none"> • Increased validity in measuring performance • More flexibility in evaluating performance <ul style="list-style-type: none"> – 360 degree appraisals – Greater use of appraisals to motivate performance – Greater focus on assessing team/unit performance vs. individual performance
Career, Performance Planning, Promotion Short, mobile careers; vertical development; perceived fairness is important in view of a single compensation system.	Greater	<ul style="list-style-type: none"> • More career path options <ul style="list-style-type: none"> – Staying in one location, 2 career families, etc. – Staying in one job or career field requiring deep expertise • Individual choice more important • Flatter structure; less opportunity for reward through promotion
Job Design Simple, well-defined jobs are most compatible with current compensation system.	Less – Little effort expended; more attention to skill standards (MOS) divorced from specific jobs	<ul style="list-style-type: none"> • Technology and teamwork will drive much greater focus on job or role design

Constructing and employing a framework that capitalizes on this dynamic process (rather than being constrained by it) enhances the opportunity to use the human resource management system to improve organizational performance. This report provides such a framework, as well as a process and an operational model, that can be used to design and to align policies and practices, vertically and horizontally, into an integrated human resource management system for the uniformed services. Figure 6 shows the framework within which alignment takes place.

What you're talking about is strategic human resource management, which is really the linking and the focusing of your human resources on your mission, on how you accomplish that mission, and how you develop those resources.

— Dana G. Mead
Chairman and Chief Executive Officer
Tenneco, Inc.¹⁷

This report provides . . . a framework, as well as a process and an operational model, that can be used to design and to align policies and practices, vertically and horizontally, into an integrated human resource management system . . .

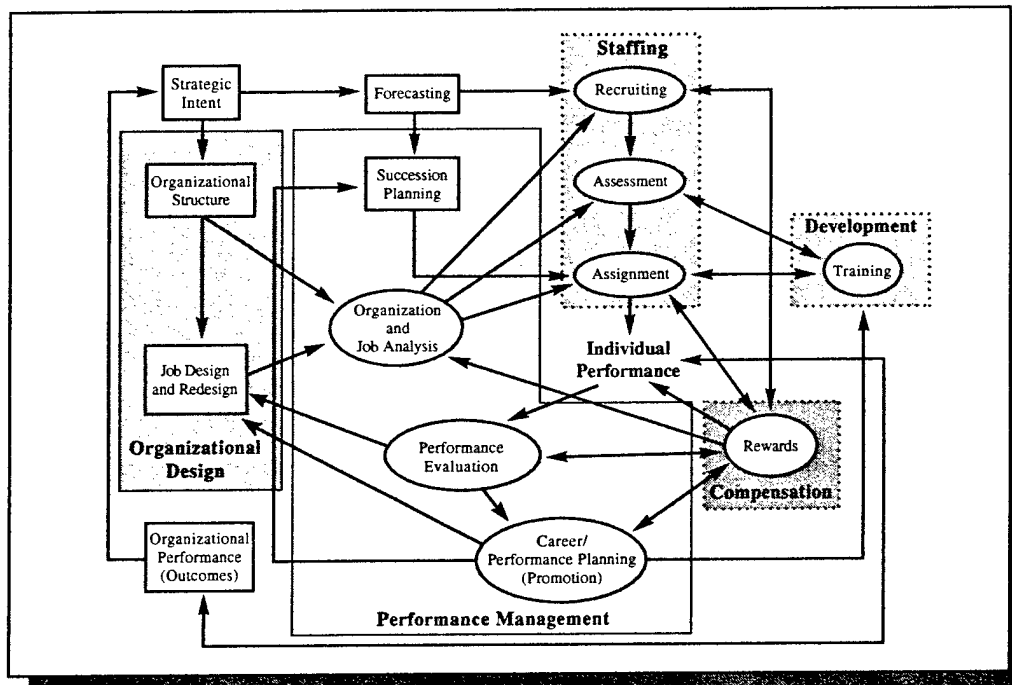


Figure 6 – The Human Resource Management System

This framework, adapted from the work of Von Glinow *et al.*¹⁹ shows the elements of a human resource management system and some of the interrelationships (denoted by the arrows in the figure) necessary for any system to operate effectively. Different observers will arrive at different

[S]trategic [human resource management] choices . . . have to be consistent with one another; otherwise, the human resources strategy lacks coherence, and it may fail to operate as intended.¹⁸

¹⁷ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

¹⁸ Hax and Majluf, p. 352.

¹⁹ Mary Ann Von Glinow, Michael J. Driver, Kenneth Brousseau and J. Bruce Prince, "The Design of a Career Oriented Human Resource System," *Academy of Management Review*, Vol. 8, No. 1 (January 1983), pp. 23-32.

The Strategic Perspective

... all elements of the human resource management system must be aligned horizontally (with each other) as well as vertically (with the organization's strategic intent).

perspectives and consequentially these will result in different frameworks; the major point of the figure, however, is that the relationship between the compensation system and the other elements of the human resource management system is complex. Most human resource management systems – including those of the uniformed services – have been designed piecemeal with the policies and practices in each of these elements treated as discrete programs. For example, some policies and practices of the compensation system may have been designed without considering their effect on (or the effect of) the performance evaluation system. The above framework shows needed relationships *between* the elements of the human resource management system to make the overall system most effective. In other words, all elements of the human resource management system must be aligned horizontally (with each other) as well as vertically (with the organization's strategic intent).

This emphasis on the alignment of policies and practices with each other and with the organization's strategic intent is the means underlying a strategic approach to human resource management.

CHAPTER 4

DESIGNING HUMAN RESOURCE MANAGEMENT SYSTEMS

The design of a human resource management system occurs within the larger strategic context discussed to this point in the report. The *process* for designing human resource management systems for the uniformed services, described in this chapter, is based on three decisions normally made at the highest level of the organization during the overall strategic planning process. The first, and key, decision is that the human resource leaders must play a *strategic role* in the organization. The need for such a strategic role and its implications were described in previous chapters. The second decision is the selection of the *general system design*. The third decision is the choice of the *aligning mechanism* to be used by the organization. Contingency theory provides a theoretical underpinning for the latter two decisions; that approach is briefly discussed in Appendix II.

The first part of this chapter discusses general system design and recommends one for the uniformed services. The chapter then describes a design process – including a specific aligning mechanism – and an operational model for aligning the policies and practices with an organization's strategy.

General System Design

The key implication of contingency theory for strategic human resource management is that *no one human resource management system design best serves all organizations*. To achieve the most effectiveness, this suggests that, in a large diverse organization, *different subunits require different human resource management systems or a single system with sufficient flexibility to meet a variety of subunit needs*.

Until fairly recently, organizations tended to exhibit a human resource management system design in which a common set of policies and practices applied throughout the entire enterprise (including all its subunits). This general system design is known as "one size fits all."¹ This was usually effective when the environment, strategy, goals, etc., were the same for all the components of the organization; and its advantages (for example, economies of scale) delivered a significant reward.

In recent years, as organizations' operating environments became more complex, large, more diverse, organizations began moving from the rigidity of "one-size-fits-all" systems toward human resource management system designs tailored to achieve

... in a large diverse organization, different subunits require different human resource management systems or a single system with sufficient flexibility to meet a variety of subunit needs.

¹ A "one-size-fits-all" system design means the entire enterprise relies on the same aligning mechanism (organizational strategy, core processes, work cultures) and applies the mechanism in the same way to focus the *design* of the human resource management system. Although this human resource management system might be *applied* differently by different parts of the organization, the system design is fundamentally the same.

the strategic objectives of the different operating units (subunits). Complex, multi-business organizations (that is, those facing multiple environments by design) are also fairly recent (mostly post-WWII), as are the means to cope with variety in the human resource management system (primarily computing and information systems).² In the extreme, each operating unit could establish its own human resource management system in the context of its unique environment with common policies and practices arising only by happenstance.³ Indeed, it is rare today for large corporations to centrally manage all human resource practices and insist that all businesses use all the same pay practices, the same pay systems, the same training packages, the same selection tools, and so on.

Human resource management system designs for most large organizations now fall along a continuum between these two poles – a continuum characterized here as “tailored flexibility.” Tailored flexibility seeks to balance – through the policies and practices of the human resource management system – the ever-present tension in large organizations caused by the strategic needs of the enterprise competing with the strategic needs of the different operating units (subunits). The corporate level may rely on a greater or lesser number of core policies and practices to accomplish its ends, thus allowing for varying degrees of individuality among the human resource management systems of the subunits of the organization.

Sonnenfeld and Peiperl⁴ predict that future organizations will have separate human resource management systems for different functional areas, different businesses, etc. However, they caution, each enterprise “should exhibit one modal type of system, which we would expect to be the kind most closely connected with the base, or primary business [focus] of the enterprise.” The idea of a flexible system with a “common core” is the essence of the tailored flexibility design. Given a strategic approach to human resource management, the tailored flexibility design appears most appropriate for the uniformed services of the future.

The current human resource management system of the uniformed services is closer to the one-size-fits-all end of the continuum. In fact, the human resource management systems of the separate military departments evolved somewhat independently (as “each-to-its-own” systems) until the Department of Defense was established in 1947. Over time, however, the uniformed services have moved toward a common system. Nevertheless, differences continue to exist that reflect the unique needs of each service. The current system maintains many common policies and practices. Also, it clearly contains some policies and practices that are unique to the individual services, and the individual services employ common policies and practices differently. For example, specific special and incentive pays are authorized for service members in particular services (sea pay, submarine pay, etc.); in addition, even within

Tailored flexibility seeks to balance – through the policies and practices of the human resource management system – the ever-present tension in large organizations caused by the strategic needs of the enterprise competing with the strategic needs of the different operating units (subunits).

² Michael S. Wenger, “Comments: Take 2,” electronic mail message, September 3, 1996.

³ Large holding companies and agencies that have little need to engage in either the operation of their strategic subunits or the associated human resource management systems are most likely to exhibit “each to its own” human resource management system designs.

⁴ Jeffrey A. Sonnenfeld and Maury A. Peiperl, “Staffing Policy as a Strategic Response: A Typology of Career Systems,” *Academy of Management Review*, Vol. 33, No. 4 (October 1986), p. 597.

... tailored flexibility will move toward a human resource management system that provides greater differentiation in different parts of the uniformed services in the future.

... a strategic approach to human resource management culminates in policies and practices designed to achieve behaviors consistent with the organization's strategic intent, thereby enhancing its performance.

the relatively narrow constraints prescribed by the Defense Officer Personnel Management Act (DOPMA), the services' officer promotion opportunities and timing vary considerably. Additionally, the distribution of officers among the field grades in the different services was different in the original legislation and has been further modified, by service, using the "carry-down" provision.

Differences in the system today derive primarily from considerations of how policies and practices may affect the ability to attract and retain high-quality service members. Tailored flexibility, as employed here, goes beyond these measures and ties the design of the policies and practices to the desired behaviors and organizational outcomes, such as achieving the adaptability and creativity sought by Force XXI – not simply filling the positions with service members who possess the requisite skills. Thus, tailored flexibility will move toward a human resource management system that provides greater differentiation in different parts of the uniformed services in the future.

The impetus today, and the long-term trend, appears to be toward tailored flexibility system designs in the public as well as private sectors. The National Performance Review proposed reforms intended to allow agencies the freedom to design their own systems and to delegate personnel authority to line managers at the lowest practical level. The National Performance Review clearly advocated moving toward a substantially decentralized human resource management system, adding that "we must reform virtually the entire personnel system: recruitment, hiring, classification, promotion, pay and reward systems."⁵

In a tailored flexibility system design for the uniformed services, the department, in close consultation with the services' human resource leaders, would establish the "common core" of policies and practices required to support department-wide strategic objectives. Beginning with this common core of policies and practices (which represents a common system skeleton), the services (or the component parts of the services) would individually make strategic choices (and propose and implement changes) to tailor the system to meet *their* specific strategic objectives.

Within the context of a tailored flexibility system design, the following section recommends a design process for aligning the policies and practices of a human resource management system to strategy for the uniformed services.

A Process for Aligning Policies and Practices

Ultimately, a strategic approach to human resource management culminates in policies and practices designed to achieve behaviors consistent with the organization's strategic intent, thereby enhancing its performance. The literature offers a number of suggestions as to how to begin a top-down, strategic approach; but it offers relatively little guidance on how to translate strategic goals into operational practices. The process described below fills this void.

⁵ National Academy of Public Administration, *Alternatives for Federal Agencies: Summary Report* (Washington, DC: National Academy of Public Administration, September 1995), p. 1.

Table 3 provides a detailed outline of the overall process. The first two steps in the process described in Table 3 are important to the successful completion of the process, but lie largely outside the scope of this report; the remainder of this chapter describes, in detail, step III – transforming the organization's strategy into human resource management strategic choices and – step IV – evaluating the effects of strategic choices on the desired performance outcomes.

Table 3 – A Process for Designing Human Resource Management Systems

Step I	Determine the organization's purpose, mission and vision	This step answers the questions of why an organization exists (purpose), what it is established to do (mission), and what it wants to be (vision).
Step II	Determine the organization's strategy based on its mission, vision, resources and environment	This step explains how the organization plans to accomplish its mission in order to achieve its vision in light of the pertinent environmental factors present and resources available. These considerations might include organizational capabilities, core competencies, culture (current and desired), demographics (external and internal), legal and/or regulatory considerations, size and geographic dispersion, and constraints (such as budgetary, legal, etc.).
Step III	Transform the organization's strategy into human resource management strategic choices	This part of the design process consists of two activities: defining organizational "role behaviors" and outcomes necessary to support the organization's strategy and converting these behaviors and outcomes into specific strategic choices along the "dimensions" that characterize the human resource management system. The strategic choices are the fundamental decisions that transform the organizational strategy into a description of the human resource management system. The strategic choices horizontally align the policies and practices within the various human resource management elements (such as performance evaluation, assessment and career planning) and, at the same time, vertically align human resource management policies and practices to the organization's intent. ⁶ By addressing these choices, organizations determine the human resource management policies and practices to meet their strategic goals. ⁷
Step IV	Evaluate the effects of the strategic choices on the desired performance outcomes	The human resource management strategic choice model was developed to provide a systematic, replicable means of conducting this evaluation. It is used to "test" the effects of the initial strategic choices and to refine those choices to better obtain the desired performance outcomes.
Step V	Translate the strategic choices into specific human resource management policies and practices	This step describes the policies and practices that allow the system to be implemented and operated day-to-day. The policies and practices are the general descriptions of the specific programs that implement the organization's strategic intent.

⁶ Patrick M. Wright and Gary C. McMahan, "Theoretical Perspectives for Strategic Human Resource Management," *Journal of Management*, Vol. 18, No. 2 (June 1992), p. 240

⁷ Bernardin and Russell, p. 39.

... the design process associates organizational strategies with *desired role behaviors and outcomes*; which, in turn, are used to make *strategic choices* along the set of “dimensions” that characterize the major features of human resource management systems. These choices, in turn, are used to develop specific *policies and practices* ...

Organizations need a focus or mechanism to align human resource policies and practices. The literature identifies a variety of focuses, such as core processes, core competencies, work cultures, business design, or business (organizational) strategies. This report uses *organizational strategies* as the aligning mechanism for carrying information from step II to step III in Table 3.⁸ From an overall perspective, the design process associates organizational strategies with *desired role behaviors and outcomes*; which, in turn, are used to make *strategic choices* along the set of “dimensions” that characterize the major features of human resource management systems. These choices, in turn, are used to develop specific *policies and practices* within each element of the human resource management system. The resulting policies and practices constitute a human resource management system designed to elicit the behaviors necessary to support the organizational strategy. Figure 7 depicts this design process.⁹

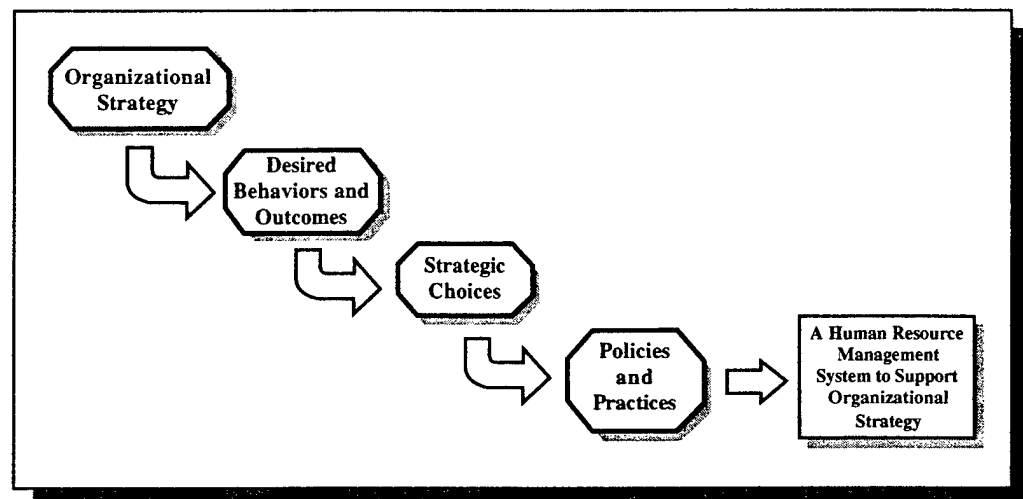
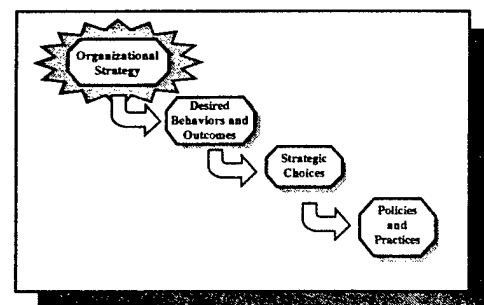


Figure 7 – A Process for Aligning Policies and Practices

Organizational Strategies

Organizational strategies, as employed in this report, are the focus around which an organization aligns human resources and capabilities, in the context of its environment, to accomplish its mission. An organization’s strategy informs decisions about the kind of people required,



⁸ The selection of organizational strategies over the other aligning mechanisms should not imply that it is the “best” or “most appropriate” in any general sense. It is used for expository purposes, to demonstrate how strategic human resource management can be applied in a specific instance. The process for developing human resource management systems is entirely generalizable using the other aligning mechanisms (core processes, core competencies, work cultures, etc.; see 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective* (Washington, DC: 8th QRCM, June 30, 1997), Chapter 3, for further discussion).

⁹ 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach*, sets the process described here in the context of a larger, overall strategic process that begins with defining an organization’s purpose and ends with implementing change within the organization.

the desired behavior of those people, and the outcomes sought. These, in turn, inform the strategic human resource choices made in the design of the human resource management system. Using this approach, all decisions regarding the human resource management system reflect the organizational strategy (through the behaviors and outcomes required). Once aligned with the organizational strategy, major elements of the human resource management system should only be changed to respond to changes to the organizational strategy, the mission or the environment.

Empirical studies ¹⁰ discuss four broad organizational strategies businesses and public sector organizations use in order to align all their functions, systems, and processes to attain a competitive advantage:

- Innovation (measured by new products developed, creativity, adaptability).
- Least cost (cost per unit, cost *versus* budget, cost *versus* competitors).
- Quality improvement (reliability, defect rate, process limits).
- Customer service (customer satisfaction, on-time delivery, rework rate).

In the spirit of these broadly applicable strategies, this report proposes a fifth organizational strategy intended to recognize the unique requirements of operational military units:

- Military effectiveness (measured by readiness, success on the battlefield).

Although the organizations employing these strategies may have different ends in mind (for example, increased profits, in the case of some private sector firms; or more effective provision of government services, in the case of some public organizations; or enhanced ability to develop unique service capabilities and to apply new operational concepts, in the case of the uniformed services), the major motivation for aligning human resource management policies and practices around one of these strategies is enhanced organizational performance – regardless of how it is measured. ¹²

If you can align the informal and formal processes together, you really can ensure that all the people are pulling toward the organization's goals.

— Paul A. Allaire
Chairman and Chief Executive Officer
Xerox Corporation ¹¹

The appropriate level for employing an organizational strategy is the level at which a subunit operates relatively independently. A large, diverse organization can have many subunits, each with its own organizational strategy focused on its particular mission, resources and environment. For the uniformed services, this means that organizations within the services (for example, major commands), “communities,” or

... the major motivation for aligning human resource management policies and practices around one of these strategies is enhanced organizational performance ...

The appropriate level for employing an organizational strategy is the level at which a subunit operates relatively independently.

¹⁰ See Randall S. Schuler and Susan E. Jackson, “Linking Competitive Strategies with Human Resource Management Practices,” *Academy of Management Executive*, Vol. 1, No. 3 (August 1987), pp. 207-217; Hax and Majluf; Cynthia D. Fisher, Lyle F. Schoenfeldt and James B. Shaw, *Human Resource Management*, 3rd ed. (Boston, MA: Houghton Mifflin Company, 1996); and H. John Bernardin and Joyce E. A. Russell, *Human Resource Management: An Experiential Approach* (New York, NY: McGraw-Hill, 1993).

¹¹ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

¹² Organizations, depending on their environment, task, resources, etc., may not choose to utilize a pure strategy but can benefit from using these pure strategies as a starting point for designing policies and practices to their specific needs.

Role behaviors are the *general* kinds of characteristics and behaviors that are important for performance throughout an organization focused on a specific organizational strategy.

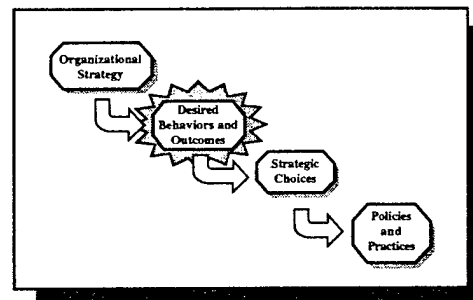
... behaviors are central to the design of human resource management systems.

other groupings with unique needs and purposes *could* legitimately develop human resource management systems based on individualized organizational strategies. For example, research and development organizations might be concerned most with innovation, procurement organizations might be concerned most with innovation *and* cost, combat units might be concerned most with military effectiveness, and maintenance units might be concerned most with quality and customer service, etc.

The literature describes and discusses a broad menu of policies and practices;¹³ however, it offers no universally accepted prescription for how to link policies and practices to strategy. The remainder of this section focuses on the middle two steps of the process diagrammed in Figure 7: how an organization can translate organizational strategy into desired behaviors, and, given those behaviors, how the organization can make strategic choices along the dimensions that characterize the human resource management system. The two middle steps form the critical link between strategy and policies and practices.¹⁴ They provide the human resource leader and the commander the strategic perspective necessary to choose intelligently among specific policies and practices.

Role Behaviors and Outcomes

To successfully implement a strategy requires associated characteristics and behaviors – organizational role behaviors – that go beyond the skills, knowledge, and abilities needed to perform specific tasks. Role behaviors are the *general* kinds of characteristics and behaviors that are important for performance throughout an organization focused on a specific organizational strategy. For example, risk-taking, collaboration, and commitment are important for performance in an organization focused on a strategy of innovation. Role behaviors relate closely to the character or the culture of the organization; they do not focus on specific duties and tasks.¹⁵ It is not necessary for every individual within the organization to display the desired role behaviors, only that the individuals collectively do so. Role behaviors collectively contribute directly to achieving the organization's strategy.



This report focuses on “role behaviors” because behaviors are central to the design of human resource management systems. As will be seen, strategic choices, and in turn, policies and practices, are specifically chosen to engender the desired behaviors. In addition, the literature uses this concept to link strategy to policies and practices;

¹³ For a review of organizational structure, personnel management, and compensation practices in common use, see 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*, Chapter 1.

¹⁴ “Policies and practices” refer to the operational details of a system. For example, a “strategic choice” might be to emphasize a greater use of variable pay, at the expense of a previous complete emphasis on the use of fixed pay. The specific form of variable pay implemented – for example, the eligible population, the formula for computing the pay, the frequency of payment, the criteria for award – would be the policy or practice.

¹⁵ Myron D. Fottler, S. Robert Hernandez and Charles L. Joiner, *Strategic Management of Human Resources in Health Services Organizations*, 2nd ed. (Albany, NY: Delmar Publishers Inc., 1994).

this report also relies on this linkage to calibrate the operational model described below. Table 4 suggests several continua along which role behaviors may vary.

Table 4 – Continua Along Which Role Behaviors May Vary ¹⁶

Highly repetitive, predictable behavior	↔	Highly creative, innovative behavior
Very short-term focus	↔	Very long-term behavior
Highly cooperative, interdependent behavior	↔	Highly independent, autonomous behavior
Very low concern for quality	↔	Very high concern for quality
Very low concern for quantity	↔	Very high concern for quantity
Very low risk-taking	↔	Very high risk-taking
Very high concern for process	↔	Very high concern for results
High preference to avoid responsibility	↔	High preference to assume responsibility
Very inflexible to change	↔	Very flexible to change
Very comfortable with stability	↔	Very tolerant of ambiguity and unpredictability

However, desired behaviors are not the final ends sought; rather, it is the outcomes resulting from these behaviors, singularly and in combination, that are of principal interest to the organization. For example, one end might be a common organizational culture, which is determined, in part, by such concepts as collaboration, shared values, conformity to norms, and commitment; or organizational flexibility, which is determined, in part, by such concepts as adaptability, creativity, and responsiveness. Although both outcomes and role behaviors are admittedly difficult to evoke, role behaviors often are easier to articulate, more measurable, and more generalizable across organizations than desired outcomes – and role behaviors can serve as an effective step in identifying these more involved, but necessary, measures of organizational effectiveness. Consequently, *both* desired role behaviors and desired organizational outcomes must be identified in this step in the process.

Each organizational strategy requires a different set of role behaviors. No formula exists for identifying these behaviors systematically from the strategy itself; rather, thoughtful consideration is required with a focus on the desired organizational outcomes. The literature was useful in identifying role behaviors associated with each of several organizational strategies. ¹⁸ Table 5 portrays the role behaviors associated in this report with the organizational strategies.

We value and develop people against new competencies.

— Joseph Neubauer
Chairman and Chief Executive Officer
ARAMARK Corporation ¹⁷

... *both* desired role behaviors and desired organizational outcomes must be identified ...

¹⁶ This table was adapted from Schuler and Jackson, pp. 207-209.

¹⁷ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

¹⁸ Literature describing the military of the future, aggregating the different services (but relying most heavily on the availability of Army information related to Force XXI) and extensive discussions served as the basis for identifying role behaviors associated with the military effectiveness strategy.

Table 5 – Role Behaviors Associated with Organizational Strategies

Customer service	Primary concern to satisfy customer High concern for quality High emphasis on assuming responsibility Relatively high degree of comfort with stability Long-term focus Moderate amount of cooperative, interdependent behavior Moderate concern for quantity of output Moderate risk-taking activity
Innovation	High tolerance of ambiguity and unpredictability High degree of creative behavior High degree of risk-taking Relatively high level of cooperative, interdependent behavior Longer-term focus Moderate concern for quality Moderate concern for quantity Equal degree of concern for process and results
Quality improvement	High concern for quality High concern for process High commitment to the goals of the organization Long-term or intermediate focus Relatively repetitive and predictable behavior patterns Moderate amount of cooperative, interdependent behavior Moderate concern for quantity of output Low risk-taking activity
Least cost	High concern for quantity of output and results Relatively high degree of comfort with stability Relatively repetitive and predictable behaviors Primarily autonomous or individual activity Short-term focus Moderate concern for quality Low risk-taking activity
Military effectiveness	A high concern for quality in operational skills High commitment to the goals of the organization Strict conformity to standards; high accountability A moderate concern for changing the process High tolerance both for ambiguity and unpredictability when executing missions and for relatively more stability at other times Relatively repetitive and predictable behaviors (train to standards) A very high degree of cooperative, interdependent behavior (unit cohesion) A short-term or intermediate focus A moderate concern for unit cost of output per person Moderate risk-taking activity Physical and moral courage Physical fitness and vigor

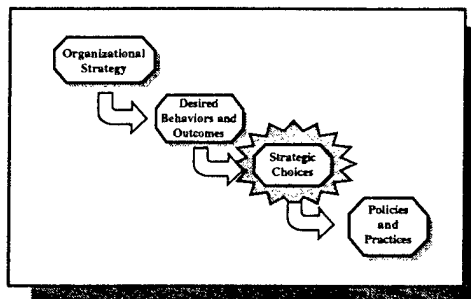
... the leaders are in the best position to identify the behaviors and organizational outcomes desired.

The process relies heavily on the leadership of the organizations for which the human resource management system is being designed for insight into the desired role behaviors and organizational outcomes; the leaders are in the best position to identify the behaviors and organizational outcomes desired. The human resource leader collaborates closely with the leadership of the organization to elicit these behaviors and outcomes. This part of the process will be difficult; however, the effort is extremely important to the design of a successful human resource management system.

Strategic Choices

Once the organization's leaders have determined desired behaviors and outcomes, strategic choices are made along dimensions that characterize the principal features of the human resource management system. The choices an organization makes along each dimension are strategic because they establish the fundamental design of the human resource management system.

Strategic choices all reflect the desired behaviors and outcomes and serve as the primary means for vertically and horizontally aligning the human resource management system.



Strategic choices all reflect the desired behaviors and outcomes and serve as the primary means for vertically and horizontally aligning the human resource management system.

A dimension is a continuum of characteristics that varies between two contrasting poles. For example, consider the dimension “fixed vs. variable pay.” An organization may design its base pay system to emphasize “fixed pay;” in such a system, the base pay would be paid at a rate that is independent of an individual’s performance (or some other measure) during the pay period. On the other hand, an organization may emphasize “variable pay;” in such a system, base pay would vary depending on the individual’s performance (or some other measure) during the pay period. The design of the system could reflect a choice at either end of the continuum (the current uniformed services compensation system is an example of a complete emphasis on fixed pay; a system in which the pay of sales personnel is entirely based on commissions is an example of a complete emphasis on variable pay). Alternatively, an organization may choose to design its compensation system with a fixed component and a variable component, in other words, some point along the continuum. The choice has fundamental implications for the design of policies and practices affecting, for example, what measure variable pay is tied to, how that measure is assessed, how that measure relates to the strategy of the organization, the frequency and form of the variable pay, etc. The choice also affects other elements of the human resource management system, such as training and development (to ensure the skills to succeed), performance management (to ensure that the right outcomes are identified and measured), and job design (to ensure the individual can influence the result that variable pay is based on). Consequently, the choice is appropriately characterized as “strategic.” Appendix IV contains the full list of dimensions, with brief explanations, used in this report.

Figure 8 and Figure 10 illustrate the relationships among the steps of the process. The left-hand side of Figure 8 lists the organizational strategies considered in this report – military effectiveness, innovation, quality improvement, customer service, and least cost. The next column, “Behaviors and Outcomes,” represents the role behaviors and outcomes the organization’s leader determines are needed to accomplish the strategy selected. The grid is used to capture the “strategic choices” (based on the desired behaviors and outcomes) for each of the dimensions of the human resource management system shown across the top of the diagram.¹⁹

¹⁹ The five organizational strategies are used as a vehicle for developing and describing the process recommended. In practice, an organization will have its own unique strategy (perhaps some combination of the five proposed). The process is applicable to any strategy.

The process described in this figure provides a structured protocol to make decisions about a large number of parts of the human resource management system.²⁰ It is a way to ensure human resource policies and practices are not working at cross purposes with each other or counter to overall objectives. For example, as shown in Figure 8, for an organizational strategy of innovation, an initial set of choices might include emphasis on **Variable** (vs. fixed) pay, **Group** (vs. individual) incentives, and pay increases based on **Performance** (vs. longevity). For an organizational strategy of least cost, the emphasis might be placed on **Fixed** pay, **Individual** incentives and pay increases based on **Performance**.

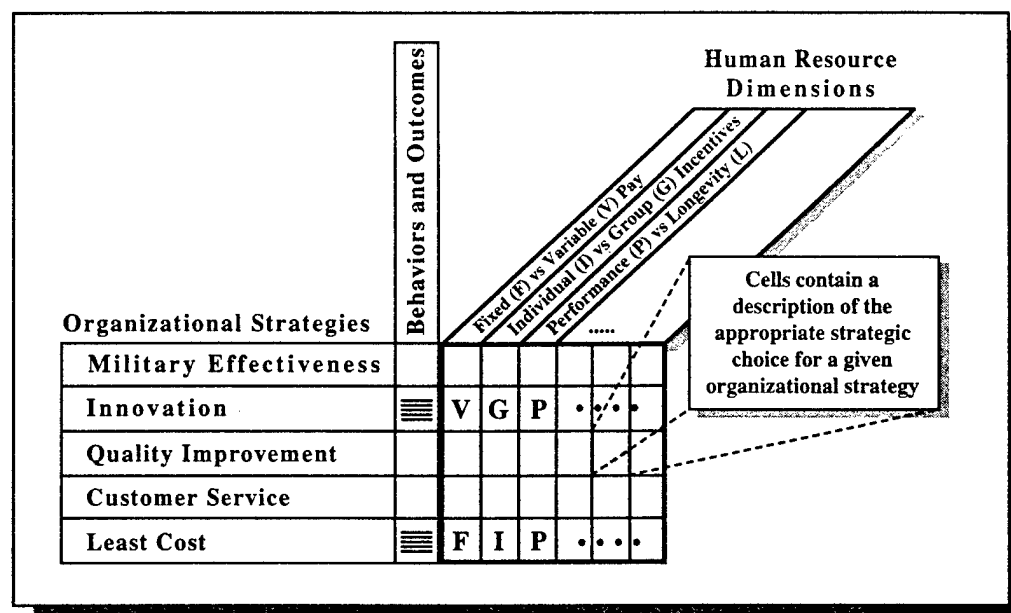


Figure 8 – Relationship of Behaviors, Dimensions and Strategic Choices

... not all strategic choices will influence each desired outcome; and different outcomes will be influenced more by certain strategic choices than by others.

The result of the process, represented in Figure 8, is a complete set of *initial* strategic choices along each of the dimensions for the row corresponding to the selected organizational strategy. However, not all strategic choices will influence each desired outcome; and different outcomes will be influenced more by certain strategic choices than by others. In fact, some outcomes will be influenced by strategic choices pulling in opposite directions.

On the first pass through the process, selection of the initial strategic choices is based on desired role behaviors. These strategic choices are then used as input into an operational model (described in the next section) to determine expected outcomes, which are then compared to the desired outcomes. Differences between expected and desired outcomes require reconsideration of strategic choices (and desired behaviors) leading to different choices, revised desired outcomes, or acceptance of the difference. As conveyed by this discussion, the process is iterative and does not necessarily result in an “optimal solution.” Figure 9 portrays the complete process. The most significant value of the process lies in greater understanding of the interrelationships that,

²⁰ This report suggests 44 dimensions are needed to fully characterize a human resource management system.

ultimately, lead to an aligned set of policies and practices that create the behaviors that bring about the desired outcomes. The major contribution and focus of this report is the portion of the process contained within the dashed box.

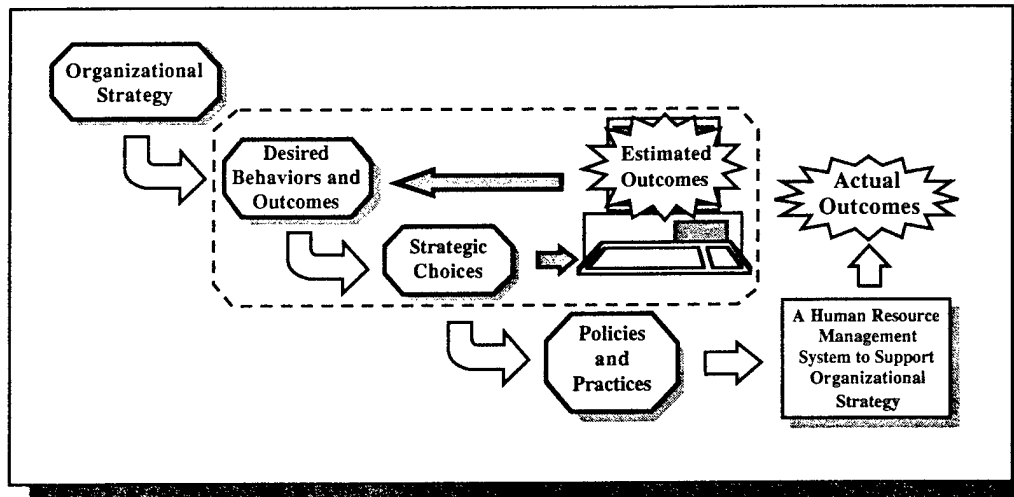
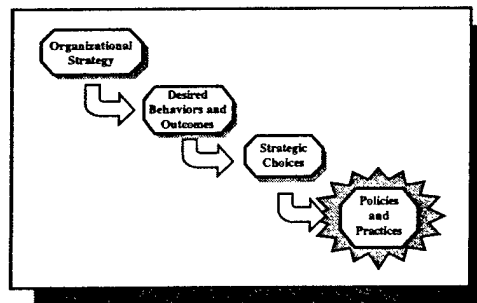


Figure 9 – A Complete Process for Aligning Policies and Practices

Appendix V summarizes the strategic choices along a selected set of dimensions for an organizational strategy of least cost and for an organizational strategy of innovation.²¹

Policies and Practices

Policies and practices are the set of specific directions, guidelines, rules, and procedures that govern the operation of the elements of the human resource management system; collectively they comprise the human resource management system. The final set of strategic choices guides the selection of individual policies and practices, but it does not uniquely determine them. For example, the strategic choice may reflect some emphasis on variable pay (but with the bulk of the emphasis continuing on fixed pay). The design of the specific basis, level, frequency of payout, etc., for the variable pay program can be based on “best practices,” the experience of similar organizations, or other factors. The major impact is obtained from having some form of variable pay – the result of the strategic choice. The design of the specific program is an operational choice. Figure 10 illustrates the link between the strategic choices and the policies and practices that make up the human resource management system; it summarizes all the steps in the design process.



The final set of strategic choices guides the selection of individual policies and practices, but it does not uniquely determine them.

²¹ These organizational strategies were chosen because they show the greatest contrast in policies and practices.

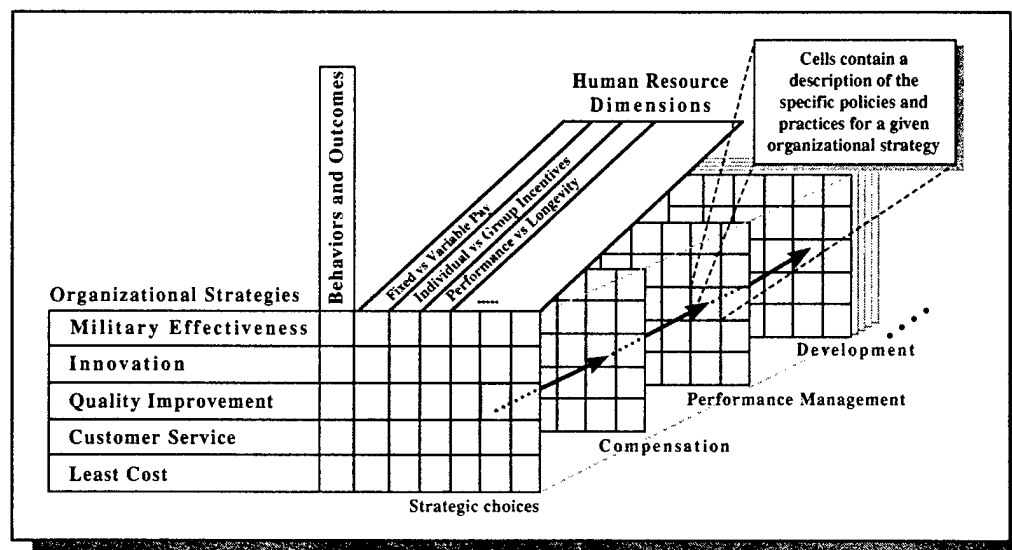


Figure 10 – Relationship of Strategic Choices to Policies and Practices

As noted above, Appendix V highlights the enormously different strategic choices along nearly every dimension for an organizational strategy of least cost and an organizational strategy of innovation. It also highlights the consequent different character of a human resource management system designed to support each of these strategies. This is the major theme of this report:

Different strategies require different behaviors, which require different human resource management systems.²²

Figure 11 compares (to the current system) some specific compensation policies and practices that follow from the strategic choices made for a organizations following these different strategies. Appendix V contains additional figures comparing policies and practices for other elements of the human resource management system. Full descriptions of the policies and practices associated with the four organizational strategies of military effectiveness, innovation, quality improvement/customer service, and least cost²³ appear in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*.

²² As a corollary to this observation, developing a human resource management system composed of a set of policies and practices that motivate the behaviors desired for one of the organizational strategies will not motivate the behaviors desired for the other. As a second corollary, designing a human resource management system based on policies and practices unrelated to either organizational strategy will create a set of behaviors unrelated to either strategy.

²³ The description of the policies and practices for an organizational strategy of quality improvement and for an organizational strategy of customer service turned out to be very closely related, as could be expected from the similarity in desired role behaviors for both strategies.

	Current System	Least Cost	Innovation
Compensation	<ul style="list-style-type: none"> • Many narrow pay grades • Internal equity • Emphasis on fixed pay; highly equalitarian • Annual increase based on cost of living; increases for promotion and longevity • Incentives: extensive non-cash rewards; no cash incentives • Benefits above average, little choice 	<ul style="list-style-type: none"> • Many narrow job and salary grades • Internal equity • Lower levels paid below market, upper levels above market • Annual increases based on performance • Incentives restricted to mid/upper level, based on quantifiable result, 10-50 % of base salary, individual • Benefits minimal at lower levels, average or better in upper levels 	<ul style="list-style-type: none"> • Few, broad bands; wide salary ranges • External equity • Pay at or above market • Annual increases based on individual capabilities • Incentives widely shared, 60-80 % of the organization eligible (40-60 % receive payout), based on project outcomes/success, 40-60 % of base salary, team-based • Benefits provide flexibility and choice, minimal to average

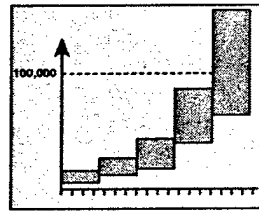
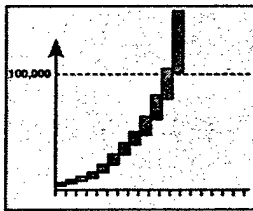
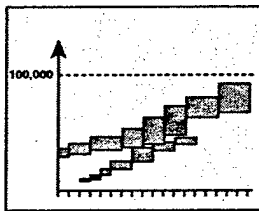


Figure 11 – Policies and Practices: Compensation ²⁴

The next section describes the human resource management strategic choice model that assists in developing the final set of strategic choices.

Human Resource Management Strategic Choice Model

The key to effective strategic human resource management is the ability to align the human resource management system with the strategic intent of the organization. Human resource managers attempt, with greater or lesser degrees of success, to accomplish this task based on experience, consultants' advice, benchmarking

The key to effective strategic human resource management is the ability to align the human resource management system with the strategic intent of the organization.

²⁴ The graphics, one for each associated strategy, in this chart represent the pay ranges (or pay bands) for different groups of employees (horizontal axis) versus salary level (vertical axis).

The computer model presented here . . . enables human resource leaders to explore and evaluate the effects of alternative human resource management systems . . .

other organizations, or other *ad hoc* bases. The lack of any structured and replicable mechanism for aligning policies and practices with strategy was the impetus for the development of the human resource management strategic choice model.

This section describes the computer model (developed using itthink® software), which provides, for the first time, a logically consistent framework for systematically evaluating human resource management system designs. This section also illustrates how to apply the human resource management strategic choice model using a variety of examples.

Description of the Computer Model

The computer model presented here codifies reasoning about human resource strategic choices and their links to organizational outcomes. It enables human resource leaders to explore and evaluate the effects of alternative human resource management systems, and it complements existing quantitative models.

The forecasting, simulation, and econometric models used by the uniformed services today effectively address the basic requirements for which they were designed. Many of these models incorporate state-of-the-art methodologies that provide insights into components within the human resource management system. Individually, however, each considers only a small sampling of the elements that comprise a human resource management system.²⁵ As valuable as these models are for addressing important questions in the compensation and personnel management systems, they are not designed to reflect the scope and complexity of interrelationships considered in strategic human resource management.

The relationships in the human resource management strategic choice model are based on a review of academic research and applications. This review resulted in an extensive knowledge base organized as a list of propositions, or assertions, that connect human resource strategic choices to organizational results. The initial list contained over 300 propositions gathered from over 100 primary and secondary sources. The propositions were derived from theory, case studies, and observations of human resource management practitioners. They are accompanied by modest empirical evidence, although they exhibit substantial consistency. The final proposition list is a distillation and synthesis of information and knowledge that forms the basis of the interrelationships in the model. The information in the proposition list was grouped into three broad categories:

- Human resource strategic choices – independent variables that the human resource management system designer controls.
- Outputs – intermediate variables that may be of interest themselves or that influence organizational outcomes.
- Organizational outcomes – variables that summarize the impact of strategic choices on organizational performance.

²⁵ A summary of the models in use today appears in Bernard D. Rostker, "Human Resource Models: An Overview," in Wayne Hughes, ed., *Military Modelling for Decisions*, 3rd ed. (Alexandria, VA: Military Operations Research Society), publication pending.

A missing element in many of the propositions was an explanation of *why* different strategic choices produced changes in an output or outcome variable. This was partially solved by using the results of Thomas and Jansen's²⁶ research into intrinsic task motivation and self-management, as well as other research concerning intrinsic and extrinsic motivation. Incorporating motivation and management into the model provided an explanatory bridge, in many instances, between human resource strategic choices and outputs or organizational outcomes.

The model combines the results of research with the judgment of recognized human resource management experts. It explicitly portrays the richness of the causal linkages underlying the elements of the human resource management system and their relationship to organizational performance. Figure 12 displays a general overview of the model.

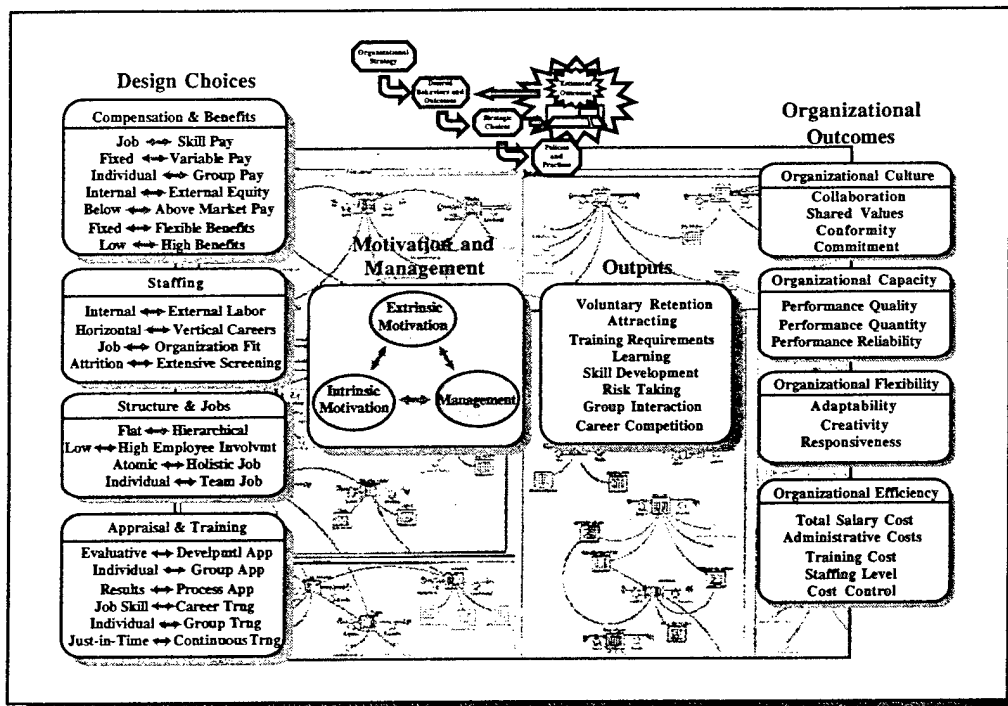


Figure 12 – Human Resource Management Strategic Choice Model

The human resource management strategic choice model is a new operational tool for creating, comparing or modifying human resource management systems. It allows system designers to align the policies and practices of a human resource management system with the organization's strategy.

Appendix VI describes the design and construction of the model in greater detail. The following subsections describe various model applications.

Incorporating motivation and management into the model provided an explanatory bridge . . . between human resource strategic choices and outputs or organizational outcomes.

The human resource management strategic choice model is a new operational tool for creating, comparing or modifying human resource management systems.

²⁶ Kenneth Thomas and Erik Jansen, *Intrinsic Motivation in the Military: Models and Strategic Importance* (Naval Postgraduate School Report NPS-SM-96-001) (Monterey, CA: Naval Postgraduate School, September, 1996).

Model Applications

The model proved to be extremely useful in the design and evaluation of human resource management systems. Initially, “generic” human resource management systems were designed to support four “pure” organizational strategies (military effectiveness, innovation, quality improvement/customer service, and least cost). *The model reflects the basic tenet that an organization’s strategy can be best attained through a unique set of policies and practices specifically designed to achieve its desired outcomes.* The model was also used to compare different generic human resource management systems to determine the trade-offs among outcomes between them, to modify the generic systems to produce customized systems, and to create new human resource management systems that engender the behaviors required to achieve specific organizational outcomes. These four applications of the model (creating generic systems, comparing them, modifying them, and creating new human resource management systems) represent the types of analysis supported by the model and are discussed below.

Creating Generic Human Resource Management Systems

One of the generic human resource management systems was designed to support the “pure” organizational strategy of military effectiveness. The first step in the design process determined the outcomes desired by an organization pursuing this strategy. Using the set of organizational outcomes available in the model, a panel of experts²⁷ discussed each outcome and decided on the subset of outcomes necessary, in their judgment, to ensure military effectiveness.

Even before the model was run, it proved useful. First, its graphical depiction focused attention on organizational outcomes. Linking human resource management *inputs* to organizational *outcomes* enables the decision maker to make choices in the context of strategic intent. Within the uniformed services, this context is absent today and discussions tend to focus solely on inputs, such as policies and practices, on an issue-by-issue basis, rather than on how policies and practices can be combined to achieve desired strategic objectives.²⁸

... in a system as complex as the human resource management system, all desired outcomes can not be attained simultaneously.

Second, it was immediately obvious that, in a system as complex as the human resource management system, all desired outcomes can not be attained simultaneously. Understanding the interrelationships influencing these desired outcomes is essential both to revealing and to evaluating implicit and explicit trade-offs. Strategy is about making sensible trade-offs among competing resource requirements. Understanding interactions and synergies leads to more effective decisions. The model suggested possible trade-offs. For example, introducing policies and practices that engender innovative behavior in an organization focusing on a strategy of military effectiveness tends, *ceteris paribus*, to reduce performance reliability. The model identified the changes to strategic choices (and, consequently, to policies and practices)

²⁷ The panel consisted of members from the 8th Quadrennial Review of Military Compensation who brought both a detailed knowledge of human resource management and operational experience in the uniformed services.

²⁸ Even in a process as useful as the Unified Legislation and Budgeting process, issues, such as the restructuring of the basic pay table as suggested by the 7th Quadrennial Review of Military Compensation (and even discussing this in the context of pay for performance), tend to focus on inputs. See Appendix VII for a discussion of the pay-for-performance outcomes that describes a broader context for restructuring the basic pay table.

that would provide some increase in innovative behavior without attendant adverse consequences.²⁹

The model then was used to produce several alternative system designs. This was an iterative process; each system design served as a basis for discussion and further refinement. In addition to producing alternative system designs quickly, the model organized the information and knowledge into an explicit framework (in the form of the underlying relationships), permitting the logic of the results to be audited. In other words, the model is transparent enough to articulate clearly not only the results but also the underlying explanation of why these results obtained.

Following the same procedure outlined above, the model helped develop generic systems, in the context of their applicability to the uniformed services, for the other “pure” strategies (innovation, quality improvement/customer service, and least cost). In each of these cases, the analysis produced a set of strategic choices that were then used to develop specific policies and practices. The resulting policies and practices are described in *Rewarding, Managing and Organizing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*, Chapter 7.

Comparing Generic Human Resource Management Systems

As the generic systems were developed, it became apparent that *each organizational strategy required a human resource management system specifically designed to attain its desired outcomes*. The desired outcomes for each strategy could only be achieved by selecting different sets of strategic choices.

For example, the expert panel identified high levels of “performance reliability” as one of the required organizational outcomes needed to support an organizational strategy of military effectiveness. The panel identified high levels of “responsiveness,” however, as one of the required organizational outcomes needed to support an organizational strategy of innovation.

Figure 13 displays an example of the tension, captured in the model, between two organizational outcomes of interest for the strategies of military effectiveness and innovation. Notice that “reliability” and “responsiveness” are both, in part, functions of “external management,” “skill development,” and “self-management.” One of the propositions used in the model asserts that self-management improves responsiveness.³⁰ Another proposition states that some self-management also improves reliability, but that *excessive* self-management interferes with reliability. Self-management is influenced by the amount of member involvement (a dimension along which a strategic choice is made). The choice to encourage high member involvement will generate high levels of responsiveness (a desirable outcome in an organization employing a

... the model is transparent enough to articulate clearly not only the results but also the underlying explanation of why these results obtained.

²⁹ This example is described in more detail in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*, Chapter 9.

³⁰ The arrows in this figure indicate the direction of causation; the “plus” or “minus” indicates whether the relationship is positive or negative. A combined “plus and minus” indicates that the relationship is positive over part of a range and negative over other parts of the range. For example, small amounts of external management increase both reliability and responsiveness; however, larger amounts of external management will have a negative effect on responsiveness.

strategy of innovation), but it also causes a decline in reliability (an undesirable outcome in an organization employing a strategy of military effectiveness). In other words, a difficult strategic choice must be made for each of these organizations along the dimension of member involvement – and this leads to different policies and practices.

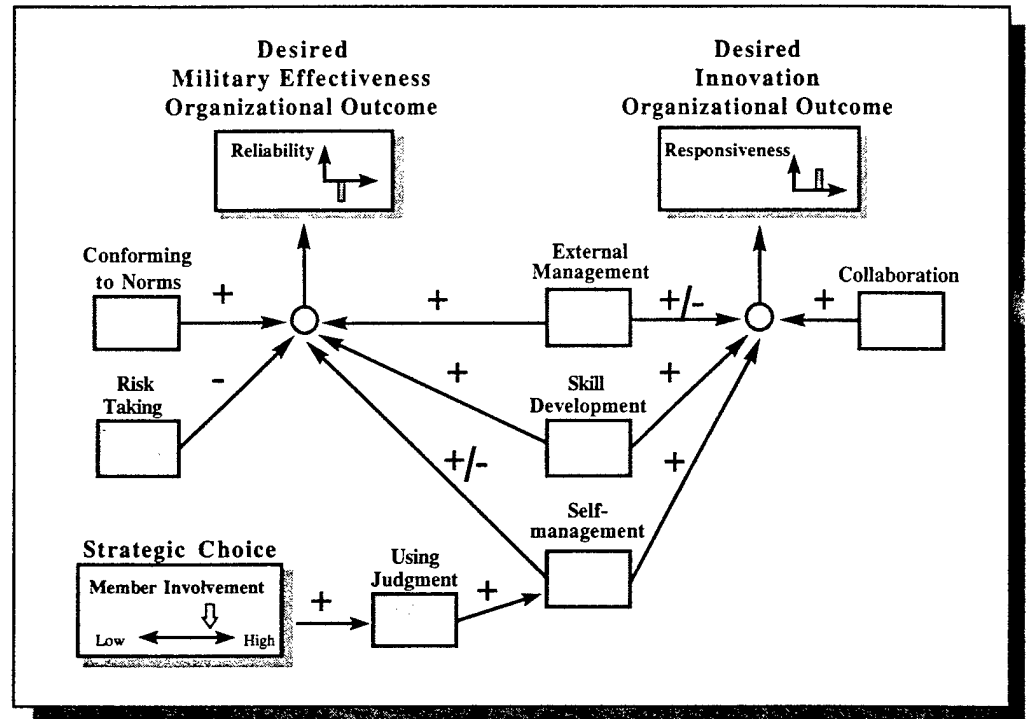


Figure 13 – Model Interactions

Figure 14 compares some of the strategic choices affecting compensation for organizational strategies of military effectiveness and innovation. The bars in each cluster represent the strategic choice made for each strategy along the dimension considered. For example, for the dimension of pay-for-the-job versus pay-for-skill, an organization employing a strategy of military effectiveness would provide a mix of the two types of pay; an organization employing a strategy of innovation would place a much greater emphasis on pay-for-skill. In addition, a human resource management system tailored to a strategy of *military effectiveness* would ultimately support “warfighting” situations in which members with a mix of skills and ranks work together toward a common goal, in a hazardous environment, dependent on each other for their lives, and where the concept of “selfless service” motivates the kinds of behaviors needed more than compensation. Therefore, pay tends to be fixed rather than variable; levels of pay are set somewhat lower than market level and offset by relatively high benefit levels and nonmonetary rewards; it stresses internal rather than external equity, so that service members are paid comparably to each other rather than to their private-sector counterparts (in part, because there is no private sector counterpart); and benefit levels are high also to ensure that the service member does not have the distraction of worrying about the welfare of his or her family. In contrast, a human resource management system tailored to a strategy of *innovation* would encourage

risk-taking, experimentation, and a focus as much on results as on process. For these behaviors, variable pay is an appropriate motivator, particularly if determined by group performance. External equity is important because individuals with highly transferable skills tend to compare themselves with non-military counterparts. Additionally, higher levels of pay are balanced by lower levels of benefits that are also more flexible in order to satisfy individual preferences. Figure 15 displays the results for the organizational outcomes of reliability and responsiveness.³¹

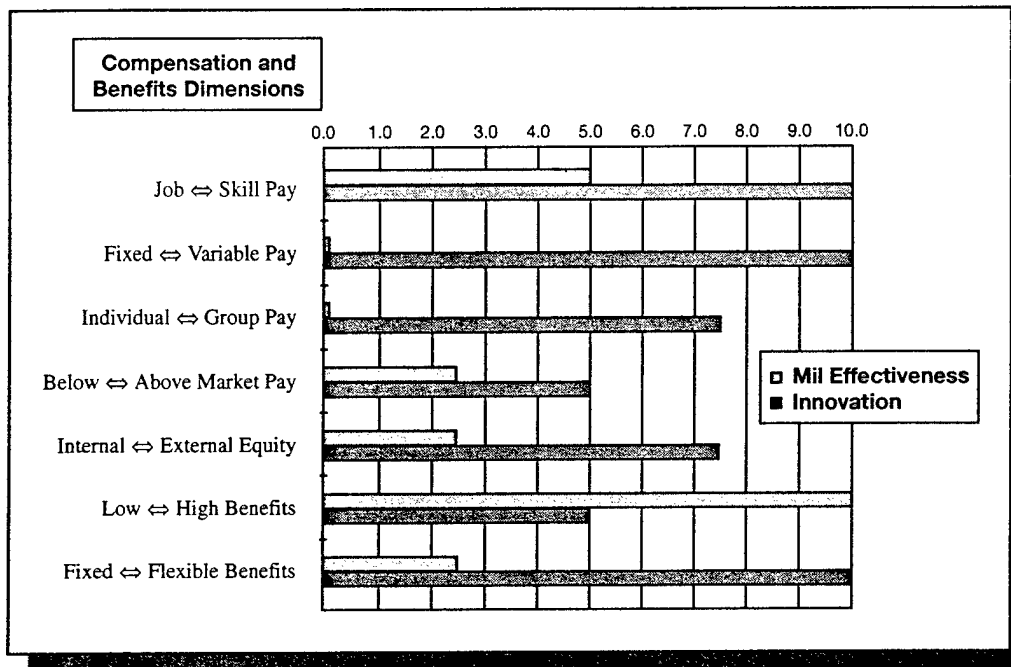


Figure 14 – Strategic Choice Comparison

³¹ The results are expressed in terms of the confidence that the outcome will occur compared to its likelihood of occurring in the current system. Because the qualitative nature of the information and knowledge represented in the model, the results are also qualitative. The numeric scale used for the results is ordinal – in other words, values are used only as a means of arranging the *qualitative* results in order, from smallest to the largest. Only comparisons of “greater,” “less,” or “equal” between values are valid.

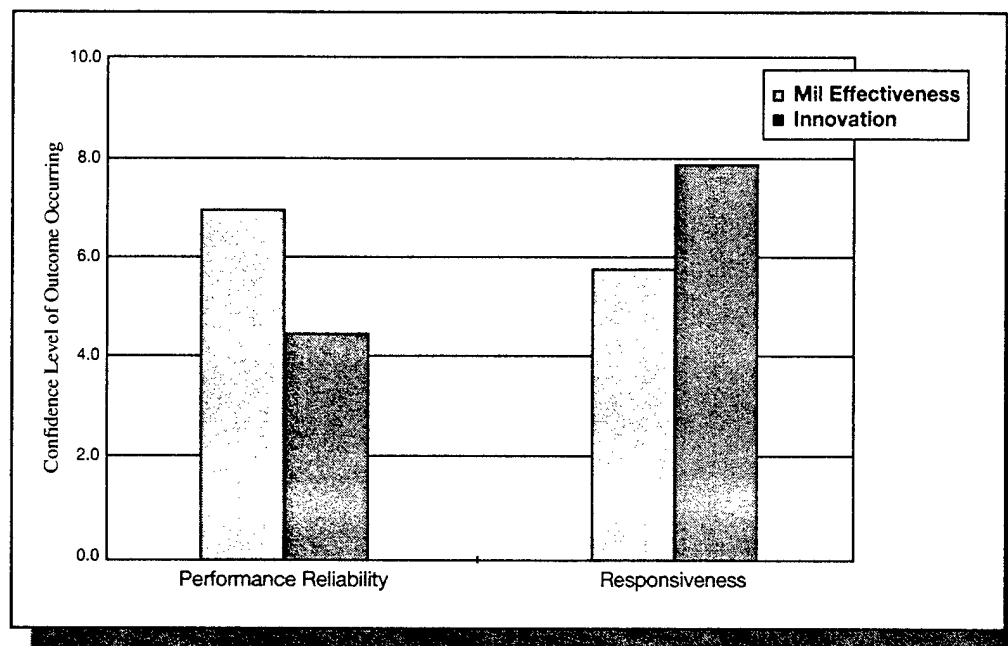


Figure 15 – Organizational Outcomes

Modifying Generic Human Resource Management Systems

Generic human resource management systems designed to achieve “pure” organizational strategies serve as touchstones for designing customized human resource management systems. Organizations, depending on their environment, tasks, resources, etc., may not choose to utilize a pure strategy but can benefit from using these touchstones as a starting point. As an example, strategic choices designed to achieve a “pure” organizational strategy of military effectiveness were modified to meet the needs of Force XXI.

After reviewing Force XXI requirements (particularly the behaviors needed to fulfill those requirements), the expert panel defined the organizational outcomes that the human resource management system should produce. Starting from the baselines of a “pure” strategy of military effectiveness, the panel chose to emphasize outcomes of creativity and responsiveness, because Force XXI emphasizes the need for innovative behavior along with the traditional behaviors needed for military operations. Figure 16 compares some of the strategic choices for compensation made for a generic human resource management system designed to achieve a “pure” military effectiveness strategy and the strategic choices made for the human resource management system designed to achieve Force XXI outcomes.

Organizations
... may not
choose to utilize
a pure strategy
but can benefit
from using these
touchstones as a
starting point.

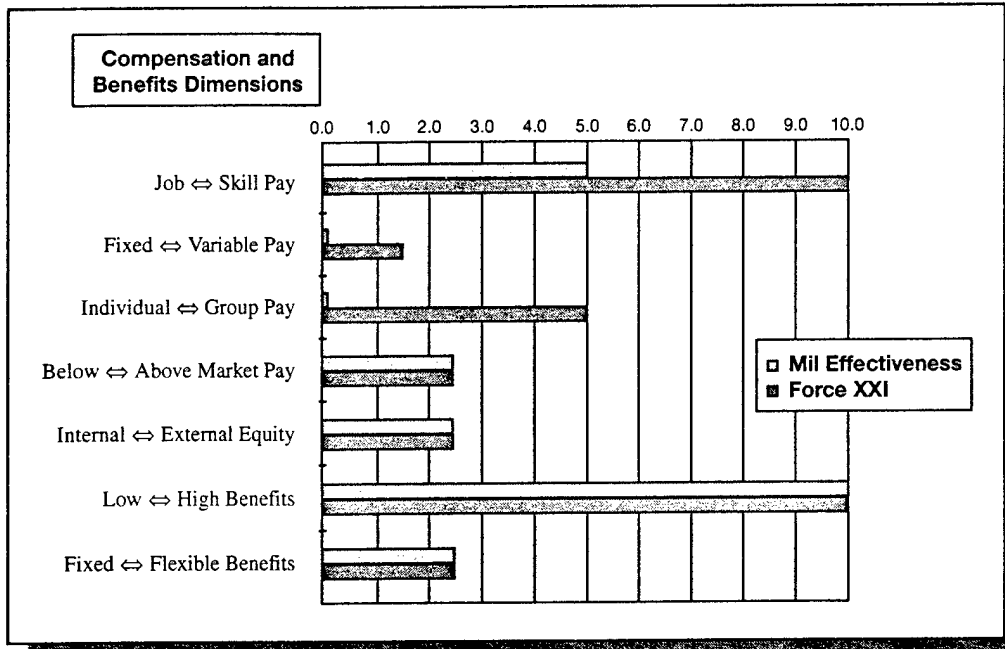


Figure 16 – Strategic Choice Comparison

Figure 17 compares the results in terms of three of the organizational outcomes: responsiveness, creativity, and administration costs. Notice that the human resource management system for Force XXI generates higher levels of creativity and responsiveness compared to the generic human resource management system designed to achieve a “pure” organizational strategy of military effectiveness. One trade-off is an associated increase in administration costs.

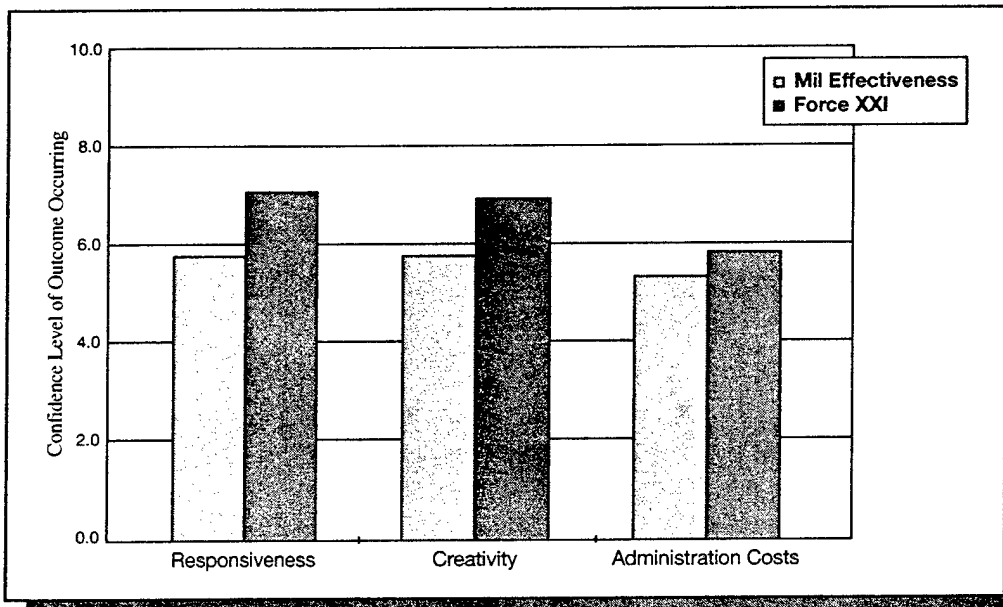


Figure 17 – Organizational Outcomes

The key is the organization's ability to translate its strategic intent into a set of desired organizational behaviors and outcomes . . .

Creating New Human Resource Management Systems

Just as the model was used to produce the generic human resource management systems, it can also help design new systems to achieve desired organizational outcomes that flow from an organization's purpose, mission, vision, and strategy, and assumptions about the future environment in which it will operate. The key is the organization's ability to translate its strategic intent into a set of desired organizational behaviors and outcomes represented in the model (or that can be incorporated into the model).

Fortunately, the model's graphical interface accommodates a high degree of flexibility. Several special versions of the basic model were easily created. In some cases, these customized models specified different outputs/outcomes (not included in the basic model) designed to address organization-unique questions or issues. In other cases, the relationships in the basic model were modified to reflect changes in the environment that might reasonably be expected to alter the effectiveness of the human resource management system. In addition, the Army modified and used the model in support of its recommendations for changing the Army's Officer Personnel Management System.

Overall, the model is a responsive and versatile tool for the design and evaluation of human resource management systems.

CHAPTER 5

TAILORING A SYSTEM FOR THE 21ST CENTURY

... in the future, what is core should be determined primarily by the overriding need for integration.

This chapter outlines what a human resource management system for the uniformed services could look like in the 21st century. It does not prescribe a system. The details of a specific system will result only from institutionalizing a strategic approach to human resource management within the uniformed services to allow actual organizations to themselves apply the strategic design process.

Recall that, in a tailored flexibility system design, the Department of Defense (corporate level), in close consultation with the services, establishes a set of *core* human resource management policies and practices. In contrast, virtually every component of today's predominantly "one-size-fits-all" system that is prescribed by law is "core" in that it applies equally to and within each uniformed service. Yet, in the future, what is core should be determined primarily by the overriding need for integration.² In the case of the uniformed services, integration includes requirements such as a strong, unique, pervasive culture; interservice compatibility to conduct joint operations; and appropriate capturing of economies of scale. Ideally, other than the minimum set of policies and practices required to achieve those types of ends, the services (and if desired by the services, the component parts of the services) should have the autonomy and flexibility to employ "local" policies and practices to meet their particular strategic needs. Which organizations can benefit by moving from standard human resource policies and practices to policies and practices tailored to their unique strategic needs is a corporate decision that should be made consciously at a high level in the organization. The intent of tailored flexibility is not prescriptive; rather tailored flexibility is intended to provide the services the *opportunity* to employ the process to design policies and practices to meet their unique strategic needs at the service level or in designated subunits, at their choice. As a result, tailoring the human resource management system within the department would occur largely on a case-by-case basis over an extended period.

In the private sector, you might have perhaps 25 different pay systems that recognize particular locations or skills. At least theoretically, that feels right for the military. It's mind-boggling to think how you might do it, but developing a different compensation system for an organization based on its specific mission really works.

— Paul O'Neill
Chairman and Chief Executive Officer
Aluminum Company of America¹

¹ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

² Vertical integration refers to strategies at all levels of an organization supporting the levels of strategy above them. Horizontal integration refers to all the subunit strategies within an organization working toward the common corporate end and complementing each other where appropriate and possible to do so.

This chapter first describes some of the requirements for vertical and horizontal integration that appear to flow from Joint Vision 2010 and other long-range strategic thrusts. It addresses the implications these requirements have on the policies and practices of the human resource management system and delineates what a core system might look like. Within such a context, this chapter then describes a set of policies and practices tailored to accommodate two different communities – one focusing on innovation and another focusing on military effectiveness.

Core Policies and Practices

Joint Vision 2010, Force XXI and Air Force 2025 suggest requirements that cut across the entire organization - some explicit, others implicit.³ Because the entire military organization (the Department of Defense) is working toward the same end, two requirements, appear consistently and serve as the basis for the following discussion: the continuing need for common elements of a *military culture* and the continued and growing need for *joint operations*. Underlying these requirements are the needs to transfer individuals, at times involuntarily, between different communities and to select units from different communities, services, and locations to serve together. Both joint operations and common military culture require the system to maintain a high degree of internal equity across subunits as well. These complex and often competing operational necessities suggest that the following characteristics of today's system might continue as core policies and practices:

- **Basic pay table:** A single pay table that would apply to all organizations (although how service members move through the pay table could vary while in a specific community). A common pay table would maintain internal equity and facilitate transfer of personnel across organizations.
- **Promotion:** A common promotion objective of identifying service members with the potential for command (although temporary promotion could also be awarded based on a position held while serving in that position). This is because the identification and promotion of future leaders are key requirements in maintaining the military culture.
- **Performance management:** A portion of the performance management system that evaluates every service member on similar metrics related to leadership potential, to support the core promotion policy (although other portions of the performance management system could be tailored to the specific community in which the member is serving). These common metrics would ensure comparable capabilities of leaders operating in a joint environment.

This list of core policies and practices is remarkably short and leaves substantial flexibility for specific communities to design additional policies and practices to meet their individual needs. The next section takes these core policies and practices as a

³ These requirements are not unique to human resource management; generally speaking, by their very nature, the strategies for achieving vertical and horizontal integration will cut across multiple functions, processes, and systems. Nor are they unique to the uniformed services; other organizations often value a strong culture yet require different parts of the organization to come together on *ad hoc* bases to work toward common ends.

common baseline and demonstrates how the remaining policies and practices can be tailored to individual organizational needs.

Tailored Policies and Practices

One of the characteristics of the current human resource management system for the uniformed services is its ability to move members between organizations. This ability is a fairly demanding requirement that forces to the surface obstacles that might result from having different sets of policies and practices. If organizations have different sets of policies and practices in the future, can this crossflow be maintained?

This section summarizes and compares the policies and practices arising from two different organizational strategies: innovation and military effectiveness. While individual services may or may not choose to apply the process below the service level, the following description uses the acquisition community as an example of where the first strategy might apply; the operational community, as an example of where the second might apply.⁴ It explores service member movement between these two communities and the common core needed to facilitate that flow without disadvantage to the service member. A more detailed discussion of the policies and practices for the acquisition community, the policies and practices for an operational unit, and observations regarding how these two sets of policies and practices interface is found at Appendix VIII.

Generally, members of the **acquisition community** of the future, because of their unique capabilities, remain in the community for most of their careers. The organization, therefore, offers multiple career paths characterized predominantly by horizontal development. To accommodate lateral career advancement in a relatively flat organization, "promotions" come in two forms: promotion to traditional *ranks* based on leadership skills; and promotion to *positions* – accompanied by titles – based on skills, competencies, or other criteria appropriate to the community. In addition to department-wide, leadership-based performance metrics, performance appraisals include tailored portions supported, in the acquisition community, by multi-source inputs to improve accuracy and to encourage collaboration. Tailored portions of the appraisals tie pay to performance, are used to assign individuals to positions within the organization, and furnish objective feedback for career development.

The acquisition community, in the future, emphasizes roles and breadth of skills and knowledge, and the flatter structure requires few, broad pay bands. The acquisition community constructs pay bands from the cells of a pay table that is common throughout the department. In addition, the community uses variable pay widely to motivate and sustain performance levels. It ties such pay to team output and rewards longer-term team and individual performance.

⁴ Commonality is assumed within each of these two larger communities. However, internal variations exist within each of these major communities. For example, within the operational community, different sub-communities, such as the Marine Corps operational sub-community and the Navy aviation, surface warfare, and submarine operation sub-communities, each share the same general organizational strategy – military effectiveness – yet emphasize different organizational outcomes and, therefore, may require somewhat different human resource management choices, policies and practices. Therefore, over time, each of these operational sub-communities may refine their choices, policies and practices.

The system supporting the **operational community** of the future is designed to retain characteristics of a more traditional nature. For example, the core performance appraisal system, based on leadership potential and development, is the primary performance management vehicle in this organization. The need for high performance reliability and quality requires a larger number of, sometimes redundant, layers in the chain of command; this organization remains hierarchical. Promotion and career advancement in the operational community continue to be synonymous, though with more flexibility than today. For example, assignment to certain positions of greater responsibility are accompanied by award of temporary higher rank and/or pay.

The operational community employs the common pay table much as it is used today; members move through the cells of the pay table based on their experience in the operational community. The community limits its use of variable pay.

Reliance on an internal labor market, the use of a centralized promotion system and a common pay table all serve to maintain a common military culture and facilitate flow between the acquisition and operational communities. Because identification and promotion of future leaders is integral to military culture, promotion to higher rank is based on leadership potential, heavily weighted toward ability to command. A common pay table is used throughout the department; however, it is applied differently by different communities. That is, movement through the pay table varies among communities based, for example, on experience, performance, competencies, skill development, or other criteria. Members transferring between communities maintain the same position within the common pay table. While in an organization, movement through the pay table is determined by the policies of that community.

Figure 18 summarizes policies and practices tailored to each community. The principal benefit of such a flexible system is its ability to serve the unique needs of different communities. In the future, both the acquisition and operational communities must adapt quickly to different, but fast-paced, rapidly changing environments. Advancements in communication technology will flatten the organization, allowing fewer levels of command and broader spans of control; consequently, in the future, jobs will be designed more broadly, requiring members to perform a greater variety of functions. Therefore, both communities will emphasize team organization and self-management. In this context, service members' ability to contribute to team objectives, rather than their rank or grade, will be more important to an organization's day-to-day performance. This flexibility will allow communities to adapt the system to their needs as they evolve; it will enable proactive, efficient management of human resources.

The principal benefit of such a flexible system is its ability to serve the unique needs of different communities.

This flexibility will allow communities to adapt the system to their needs as they evolve . . .

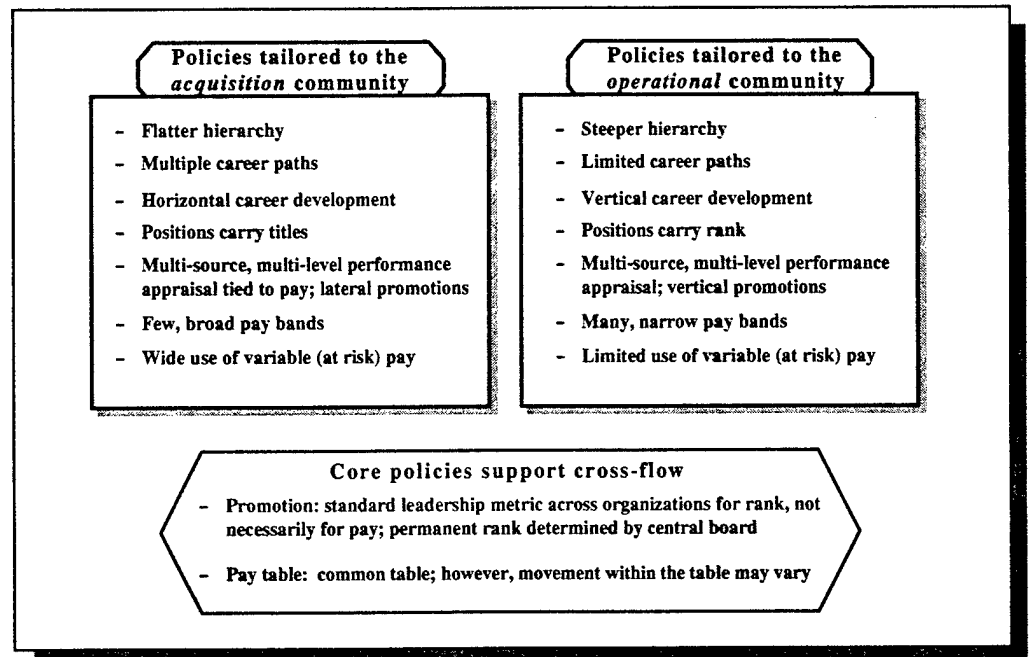


Figure 18 – An Example of Tailored Policies and Practices for the Acquisition and Operational Communities

... what can a strategic approach to human resource management add to the uniformed services' ability to handle ... change?

The Transition to the All-Volunteer Force – Revisited

The specter of “major change in strategic direction” is certainly not new to the Department of Defense. But what can a strategic approach to human resource management add to the uniformed services' ability to handle such change? Revisiting the experience of the shift to an all-volunteer force in the early 1970s provides some insights.

Eitelberg's ⁵ thought-provoking retrospective of some of the lessons learned from the all-volunteer experience suggests the following strategic needs:

- To anticipate changes in the future recruiting market and establish broad, integrated programs to cope with them.
- To view human resource management as a system composed of more than just pay and benefits. It also includes job and working conditions, performance appraisal systems, etc., and – most importantly – appreciation of the potential *synergy* among the elements of the system.

⁵ Mark Eitelberg, “The All-Volunteer Force After Twenty Years,” paper presented at “A Military of Volunteers: Yesterday, Today, and Tomorrow,” a Conference Commemorating the 20th Anniversary of the All-Volunteer Force, U.S. Naval Academy, Annapolis, MD, September 15-17, 1993. Department of Systems Management, Naval Postgraduate School, Monterey, CA.

- To collect data and measures beyond traditional manpower statistics. John White observed (of the all-volunteer force) that measures of success tend to be those that are “comfortable” and that “we understand,” but that are “not necessarily the *appropriate* measures of success.” He warned that “we may end up with a force structure which is not appropriate to the mission simply because of success in [easily measurable areas] such as recruiting and retention.”⁶
- To recognize the critical importance of recruiting and advertising resources to effective organizational performance. But more than a focus on recruiting to achieve overall quality and education standards (still the norm today),⁷ a strategic approach implies selectively recruiting to match recruits to specific organizations – that is, to match recruit characteristics and behaviors to those essential to accomplishing unique missions.

[N]ew research has confirmed a recent link between the army’s changed recruiting policies and the subsequent accession gains. I suggest that the potential for such increases existed all along, that the recruiting policies have been largely neglected by the policy research community and recorded after the fact instead of suggested as an important policy option, and that they could have made a substantial impact on the AVF over the last decade.

— Bernard Rostker⁸

The following sidebars expand on these four points. Eitelberg’s comments on lessons learned are summarized in italics in the sidebars. These comments are then recast and expanded (in the non-italic text) to show how they would be incorporated in the strategic approach recommended in this report.

⁶ John P. White, “Commentary,” in William Bowman, Roger Little and G. Thomas Sicilia, eds., *The All-Volunteer Force After a Decade* (Washington, DC: Pergamon-Brassey’s, 1986), p. 254, [italics added].

⁷ Namely, AFQT scores and the possession of a high school diploma.

⁸ Bernard D. Rostker, “Commentary,” in William Bowman, Roger Little and G. Thomas Sicilia, eds., *The All-Volunteer Force After a Decade* (Washington, DC: Pergamon-Brassey’s, 1986), p. 255.

Anticipating Changes

The department should understand the effects of various changes in the economy (the improving job market for young men) and the youth labor force (drop in desire to enlist) on the military's ability to recruit and retain highly qualified personnel.

A strategic approach incorporates a continual analysis of threats and opportunities in the environment such as those delineated by Eitelberg.

The economy and the demographics of the youth labor force are part of that environment. However, potential shifts in the "character" of prospective recruits – and of careerists – are affected by larger demographic considerations and by powerful social/cultural forces, as well.

In addition, changes in the workplace in other organizations and in the fundamental nature of work (based on technological change, for example) affect the "competition" for human resources – and the "competition" is the keenest for those individuals who can add the most value to an organization.

This competition was not widely understood at the inception of the all-volunteer force, when competition was much less fierce than it is today and will be in the future. To win that competition in the future, to be the "employer of choice," the uniformed services must better understand the changing environment, and they must define with greater specificity the characteristics (in terms of values, competencies, behaviors, as well as aptitudes and educational attainment) they want in service members of the future – other organizations are doing exactly that.

As the uniformed services get smaller, the task of recruiting high-quality people *should* get easier; however, the requirements placed on the smaller number of people will increase – under some visions of the future, they will increase significantly – making it all the more important that the characteristics of service members be carefully defined.

Thinking Beyond Compensation

The importance of pay and benefits, especially education assistance, as recruiting and retention incentives should not be disregarded.

This lesson highlights the need to recognize the relationships that exist between elements of the human resource management system. Certainly, changes in pay and benefits affect the decision to join, to stay or to leave – and other behaviors critical to accomplishing desired organizational outcomes. However, it is easy to conclude that these changes – because they are the changes that are discussed, written about and most visible – are the only, or at least the major, contributors to the success of the all-volunteer force.

But many changes in other elements of the human resource management system (the effect of which were often not as overtly measurable as changes to the compensation system) were also adopted over time. For example, the desire for more individual choice has been accommodated in the assignment system. Some were the result of exigencies requiring a response; others were undertaken as a result of a conscious effort to improve organizational performance.

A strategic approach ensures the elements of the human resource management system are mutually supportive and create a synergy not usually obtained through individual changes to parts of the overall system. Again, the changes to pay and benefits were, indeed, important to the success of the all-volunteer force; however, the effects of changes in compensation can be magnified when other elements of the human resource management system are changed at the same time – and when all are aligned to support desired organizational outcomes.

Focusing on Outcomes

It is important that the department have accurate and current information as well as a set of plans and management procedures to counteract manpower shortfall.

Clearly, manpower shortfalls must be avoided: they are costly in terms of actions required to recover from them and in terms of their effect on operations – as the Department of Defense found during the first decade of the all-volunteer force. Manpower levels (and the associated recruiting and retention indicators) receive considerable focus today: consistent with Eitelberg's recommendation, systems provide the information needed to assess the key variables, and the highest levels in the department develop plans to avoid or alleviate potential shortfalls.

This is a necessary ingredient of a strategic approach to human resource management. However, a strategic perspective would take this activity further. Meeting manpower levels enables an organization to pursue its objectives, but the human resource management system can do much more than *enable* an organization; it can engender the behaviors that can *enhance organizational performance*.

A strategic approach to human resource management focuses on desired behaviors that change over time and desired organizational outcomes that must respond to a changing environment. Shortfalls in these areas (behaviors and outcomes) were not given emphasis with the inception of the all-volunteer force. Perhaps such shortfalls were not important then (though this is doubtful). However, such an emphasis is required today (not at the expense of the focus on manpower levels, recruiting and retention, but in addition to it) to obtain the level of organizational performance that seems required within the futures outlined by Joint Vision 2010, Force XXI and Air Force 2025. Aligning an organization's information technology to capture the information needed to support its strategic direction is critical.

Importance of Accession Resources

Adequate recruiting and advertising resources are essential.

Recruiting is a human resource management system element of immense importance to the uniformed services. The current management literature, if employed at the beginning of the all-volunteer force, would probably have described recruiting as a "core competency" or, at least, as a "core capability." Given the size of the uniformed services and the nature of military service, the function of recruiting takes on a significance far greater than that in the vast majority of other organizations. However, again, understanding its relationship to the other elements of the human resource management system can lead to complementary changes that significantly increase the effectiveness of the recruiting function itself. For example, a strategic approach would focus on the characteristics and behaviors required of those who are eventually recruited. If the desired characteristics and behaviors are not taken into account in the recruiting process, they may still be obtainable through training, carefully designed reward systems, attrition of those who do not develop the characteristics and behaviors required, etc. The strategic approach raises questions based on the underlying relationships, recognizing that what might be right today, may not be right in the future.

The desired characteristics of recruits have evolved over time and currently focus on aptitude and high school graduation; the behaviors of primary interest have remained joining and staying. Although measurable and correlated with organizational outcomes, the relationship is indirect and not specifically tied to any effort to identify and ensure these outcomes.

A strategic approach to human resource management goes beyond the ability to attract based on some generally valuable characteristics, however, to a focus on identifying and selecting service members who have (or could develop) the desired characteristics and behaviors required to effectively accomplish an organization's specific mission.

How might a strategic approach to human resource management help a transition to a new warfighting doctrine?

Application: A Strategic Approach to Force XXI

Changes facing the uniformed services today are potentially as substantial as the change to an all-volunteer force. How might a strategic approach to human resource management help a transition to a new warfighting doctrine? This section illustrates the use of the human resource management strategic choice model to tailor a human resource management system to support a change in organizational direction or culture.⁹ The model was used to identify strategic choices to support behaviors and organizational outcomes that the Army suggests are required of its warfighters under Force XXI. The analysis suggested that a tailored human resource management system will generate higher levels of the desired behaviors and outcomes than the current system or even a system designed to support the “pure” strategy of military effectiveness.

Methodology

The first step in designing a tailored human resource management system was to identify behaviors and organizational outcomes likely to be required by Force XXI. Then, beginning with a generic system designed to support an organizational strategy of military effectiveness (assumed to best support warfighting subunits of today), inputs of the model (strategic choices) were altered to generate higher levels of the desired outcomes than those achieved by the baseline system. This is an iterative process that continued until acceptable estimates of desired outcomes were attained. The resulting set of strategic choices describe a human resource management system tailored to support the operational community of Force XXI.

Force XXI Environment and Requirements

Army Training and Doctrine Command documents and Army 2010 Conference presentations describe the Force XXI environment and the behaviors that will be required of individual soldiers.

[T]he character of future military operations can no longer be anticipated merely by analyzing an adversary's stage of economic development; regional or even local powers may possess the capability of employing extremely advanced military technologies. An adversary's actions will require intelligence analysis of fields extending far beyond the traditional battlefield focus. Boundaries within the spectrum of operations will become even more blurred than they are now. Current political and technical trends suggest that, as a matter of course, successful conflict prosecution and termination will depend upon multinational commitment, joint operations, and a high professional tolerance for the new forms of conflict. The days of the all-purpose doctrinal threat template are gone, just as the days of a single-prescription Army doctrine are gone.¹⁰

⁹ Other applications are presented in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*, Chapter 9.

¹⁰ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5, Force XXI Operations: A Concept for the Evolution of Full-Dimensional Operations for the Strategic Army of the Early Twenty-First Century* (Ft. Monroe, VA: TRADOC, August 1994), pp. 16-17.

And,

Quality soldiers . . . will remain key to success on future battlefields. Soldiers in the twenty-first century will be faced with a wide variety of challenges in preparing for and executing missions . . . They will be trained on selected critical individual tasks in initial entry training to ensure they are immediately deployable upon joining their first unit. They will be familiar with the wide variety of tasks expected of them and the equipment they will use. This concept seeks to empower and develop the untapped potential of our quality soldiers. The battlefield contribution of individual quality soldiers will continue to increase and, indeed, is at the root of knowledge-based operations.¹¹

Consequently, soldiers of the future must be eager to accept responsibility and must understand how their work relates to the work of others. They will have to be able to handle larger tasks than are typical today; to adapt to changed circumstances swiftly; to acquire and retain knowledge and understanding; and to be self-confident, self-starting, and self-sufficient. In sum, soldiers of the future must possess attributes of cognitive ability, cooperation, achievement motivation and adaptability.¹²

The Generic System

The characteristics and behaviors generally required in an organization that employs an organizational strategy of military effectiveness include demonstrated competence in operational skills, a high commitment to the goals of the organization and strict conformity to standards. Such an organization also calls for a high degree of cooperative, interdependent behavior and a high tolerance for ambiguity and unpredictability when executing missions. Soldiers within an organization pursuing a military effectiveness strategy need to be physically fit, display physical and moral courage, and demonstrate relatively repetitive and predictable behaviors (train to standards). Therefore, the strategic choices that support an organizational strategy of military effectiveness support these behaviors and generate desired organizational outcomes including adaptability, responsiveness, creativity and performance reliability.

Force XXI Behaviors and Outcomes

The generic system designed to support a “pure” strategy of military effectiveness was tailored to the Force XXI environment and requirements outlined above by altering strategic choices so as to emphasize the following behaviors and outcomes:¹³

¹¹ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 44.

¹² Michael G. Rumsey, Chief, Selection and Assignment Research, US Army Research Institute, presentation at The Army 2010 Conference, presenting attributes identified by a panel of six experts, June 1, 1995.

¹³ Again, this analysis is illustrative; Army commanders and human resource leaders may choose to emphasize different combinations of behaviors and outcomes in actually designing a system.

- Collaboration.
- Responsiveness.
- Creativity.
- Adaptability.
- Reliability.

Because it is not possible to maximize levels of all outcomes simultaneously, the goal of the Force XXI analysis was to generate relatively higher levels of *collaboration*, *responsiveness*, *creativity* and *adaptability*, while maintaining the level of *reliability* present in the generic system and accepting lower levels of other outcomes. Compared to the generic system, for example, the system designed for Force XXI emphasizes risk-taking and participative decision-making behaviors in order to engender adaptability. Similarly, it relies more on self-managed soldiers, requiring them to assume greater responsibility.

Resulting Tailored System for Force XXI

The following descriptions relate strategic choices (in bold) to intermediate and final outcomes. As noted earlier in the report, the underlying relationships are based on an extensive literature review and are captured explicitly in the model.

Compensation and Benefits

Greater emphasis on **paying for skill** encourages and rewards skill development and learning. A small component of **variable pay (pay-at-risk)** incentivizes performance, to the extent that it does not detract from commitment. For example, the Force XXI Army could base periodic pay increases on a blend of individual and group performance that incentivizes skill development, learning and adaptability. Variable pay then targets needed or emerging skill requirements. As in the generic system, **pay levels** are set slightly below market to control costs without harming retention or attraction of new service members. A strong emphasis on **internal equity** is designed to increase commitment. Finally, **flexible benefits** allow a small component of choice that increases extrinsic nontask motivation, which contributes to retention and helps control costs.

The analysis initially sought to obtain the desired outcomes using extrinsic compensation alone. However, no set of compensation policies and practices could come close to achieving the full set of outcomes. Although compensation alone might influence a *particular* outcome, modifications to the other components of the human resource management system were essential to obtain changes in the complete set of desirable outcomes. These additional modifications are described below.

Organizational Structure and Job Design

A moderately **flatter organizational structure** increases adaptability by decreasing organizational layers without diminishing reliability and responsiveness. Also, **jobs are more holistic**. Holistic jobs enhance self-management, responsibility, learning, skill development and collaboration, which in turn lead to increases in responsiveness

and adaptability. Job designs require moderately **higher employee involvement** in order to complement holistic jobs without diminishing organizational reliability.

Holistic job designs have potential to benefit warfighting units because of the need for flexible response – “[s]oldiers will be exposed to a wide diversity of operations in different geographical environments, often on short notice.”¹⁴ Holistic job designs set the foundation for soldiers to acquire the various skills, wider range of abilities, and more in-depth knowledge needed to execute more complex, combined tasks associated with the Force XXI environment.

Recruiting, Assigning and Promoting

A somewhat greater reliance on the **external labor market** can help to ensure special or unique skills are available at short notice; however, at the same time, maintaining an organization’s values, norms and level of commitment are important. A more balanced emphasis on both **horizontal and vertical career development** compared to the generic system leads to increased adaptability by providing different or multiple career paths.

For example, Force XXI projects an increased requirement for both number and variety of Army foreign language linguists. The linguist requirement constantly changes, determined primarily by the geographical location in which the Force XXI Army operates. Recruiting from the external labor market *could* provide quicker access to special skills and may be more cost-effective than maintaining a universal linguistic capability. This would be particularly effective if the “external labor market” were, in some form, tied closely to the reserve component. The reserve component might structure its recruiting in this area to benefit from strategic partnerships with non-governmental and governmental organizations that require the same kinds of skills, sharing training and developmental expenses to the benefit of both organizations – and the service member.

Appraisals

A greater balance between **evaluative and developmental appraisals** allows skill sorting and performance feedback while encouraging skill development. **Group or team appraisals** used in conjunction with **variable pay for teams** encourage collaboration and conformity to group norms. Collaboration and conformity, in turn, lead to increased reliability and responsiveness. **Appraisals that equally emphasize results and process** can encourage skill development and learning while maintaining reliability.

The wide diversity of operations associated with Force XXI should encourage soldiers to develop varieties of skills to prepare for unexpected situations. A developmental appraisal can provide leaders a non-threatening means to mentor and coach subordinates. This approach is consistent with the emphasis on holistic job design.

¹⁴ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 44.

Training and Development

As with the generic system, a moderately high emphasis on **career development training** will tend to attract career-minded recruits as well as reinforce commitment to the organization which, in turn, improves performance quality. Force XXI requires a strong emphasis on **group training** in order to reinforce collaboration and conformity to group norms which, in turn, lead to higher levels of reliability and responsiveness. Likewise, Force XXI emphasizes **continuous training**.

Group training, by encouraging and building interaction skills among soldiers, can facilitate the flow of information on the battlefield. Information sharing on the Force XXI battlefield will be vital to fully utilize each participant's capability in an environment where "information technologies result in smaller staffs [and enable both soldiers and units] to perform more functions."¹⁵

The following figures summarize and compare strategic choices for the current system, a generic military effectiveness system and the system just described – and the model's outcomes. The strategic choices for Force XXI improve the outcomes (compared to a strategy of military effectiveness) in nearly all cases.

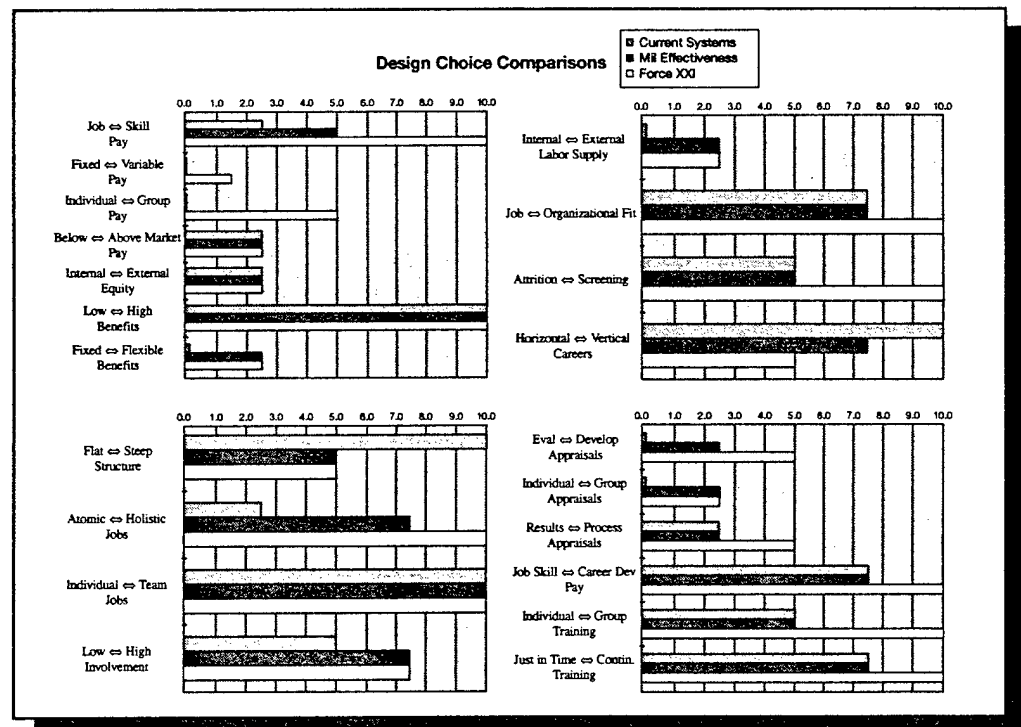


Figure 19 – Force XXI Analysis Inputs

¹⁵ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 41.

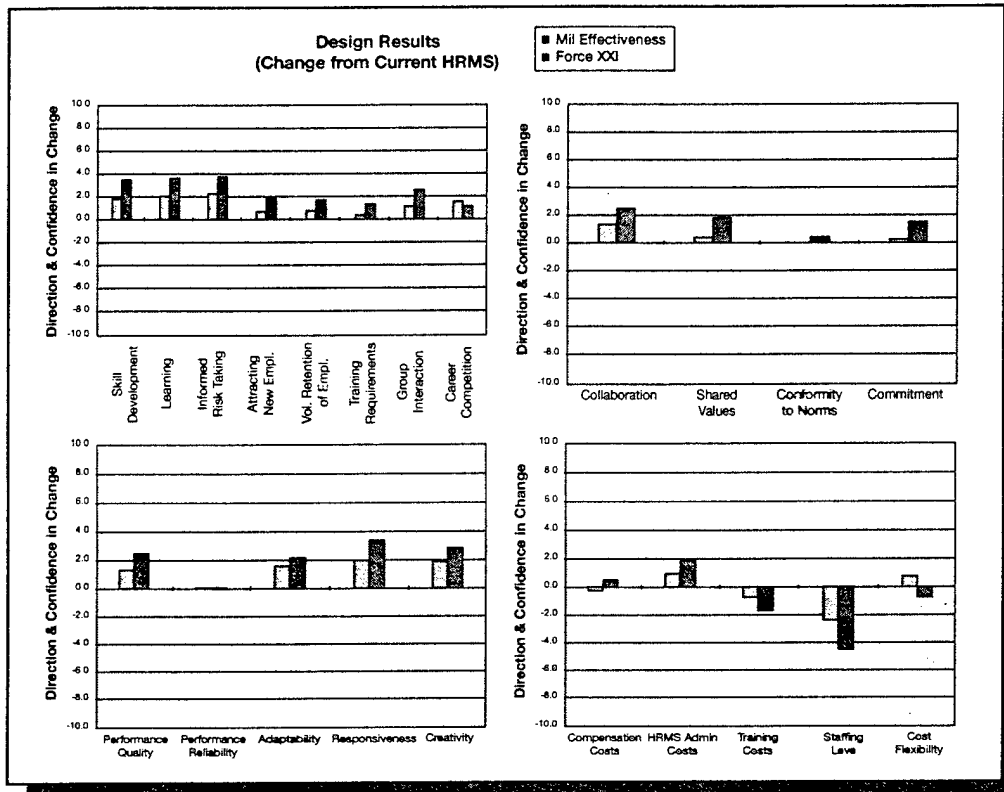


Figure 20 – Force XXI Analysis Outcomes

CHAPTER 6

IMPLEMENTING STRATEGIC HUMAN RESOURCE MANAGEMENT

This chapter recommends establishing a decision-making council, an expert advisory body and an explicit process for adopting a strategic approach to human resource management in the Department of Defense.

Currently, the uniformed services have no systemic way to examine long-term human resource issues or to translate the results of such an examination into a well-articulated human resource management strategy.¹ At the same time, the uniformed services face continuing demands for improved performance.² This chapter recommends establishing a decision-making council, an expert advisory body and an explicit process for adopting a strategic approach to human resource management in the Department of Defense. The recommendations are based on two existing prototypes that help organizations set strategic direction: the *defense acquisition process* in place within Department of Defense today, and the concept of a *board of directors* in widespread use throughout the public and private sectors.

These recommendations will provide a formal, yet streamlined structure for raising fundamental strategic issues concerning people. The structure is needed:

- To support and integrate the human resource management strategies of the uniformed services.
- To ensure these strategies are fully incorporated into the existing planning and programming system of the Department of Defense.
- To assure senior leadership and the Congress that proposed changes to the human resource management system are aligned with the strategic intent of the department and effectively integrated with other functions (financial, information systems, etc.) of the uniformed services.
- To place the human resource management community “at the table” with senior military and civilian leaders in formulating strategy for the 21st century.

Instituting the recommendations elaborated in this chapter will enable the Under Secretary of Defense for Personnel and Readiness and other defense human resource leaders to serve as strategic partners and change agents in the defense enterprise.

¹ Currently, human resource planning by the services is primarily concerned with force structure, which includes determining the number of people, needed skills and training. In other words, the “people” side of the planning process has been formulated as a manpower and training issue.

² For example, the reduction in the number of people and resources in recent years, combined with the emergence of new – or expanded – missions, has required the uniformed services to reorganize and reengineer processes to accomplish their required tasks. Initiatives associated with Performance-Based Organizations and the National Performance Review are other manifestations of these demands.

Two Prototypes: The Defense Acquisition Process and Boards of Directors

Because many readers will be familiar with the prototypes used as the bases for these recommendations, they are described briefly here and the acquisition prototype is discussed more fully in Appendix IX. They are intended only to serve as models, taking what is appropriate and useful and applying it to the human resource management community.

A defense acquisition program usually begins with an identified operational threat that can be remedied by a new weapon system or modification to an existing system. The Under Secretary of Defense for Acquisition and Technology monitors the progress of the acquisition via the Defense Acquisition Board and a milestone process called the "acquisition management system." This process consists of milestones beginning with the exploration of alternative concepts and continuing through the development, production, deployment, support and disposal of a weapon system. In preparation for and during the meetings of the Defense Acquisition Board, the operational and acquisition communities work together to make strategic decisions on how best to solve the identified mission need.

The second prototype is a board of directors. Boards play crucial roles in other organizations. Most government agencies that provide public services, non-profit organizations and for-profit corporations have boards of governance, for several reasons. In the case of public and non-profit organizations, those who provide resources to the organization are often not the organization's direct customers; consequently, performance feedback is less direct than that which the market provides to corporations. A board of directors, therefore, can assume some of the functions of owners and the marketplace.³ For any organization, the tripartite system (board, executive, and staff) can provide a means of check and balance: "a board-executive relationship that resembles a council and mayor, legislature and governor, or even Congress and the president."⁴ A board also provides an opportunity for shared wisdom, offering an organization knowledge, insight and personal contacts of a group of unusually able people who have widespread spheres of influence.⁵ The Commission on Roles and Missions, though a temporary entity, is an example of how these roles can be fulfilled in the Department of Defense.

Generally, boards of directors have three broad functions: control, service, and strategy. The *control* function involves monitoring managerial competence as well as overseeing resource allocation.⁶ The second role, *service*, adds an external perspective where directors act as "boundary spanners" between the organization and a changing environment.⁷ Third, and most important, is the *strategic role*, in

Instituting the recommendations elaborated in this chapter will enable the Under Secretary of Defense for Personnel and Readiness and other defense human resource leaders to serve as strategic partners and change agents in the defense enterprise.

³ Regina E. Herzlinger, "Effective Oversight: A Guide for Nonprofit Directors," *Harvard Business Review*, Vol. 72, No. 4 (July-August 1994), p. 52.

⁴ Herzlinger, p. 16.

⁵ Herzlinger, p. 8.

⁶ In the context proposed here, however, this role would be limited to an advisory one; formal control would reside with the existing system within the department.

⁷ Jeffrey Pfeffer, "Size and Composition of Corporate Boards of Directors: The Organization and Its Environment," *Administrative Science Quarterly*, Vol. 17, No. 2 (June 1972), p. 219.

which the directors guide the definition of the corporate mission and assist in developing, implementing and monitoring the organization's strategies. In this capacity, a board provides its greatest value.⁸

The New Human Resource Management Decision-making Process and Structure

To adopt a strategic approach to human resource management and, concurrently, to enhance the effectiveness of the Under Secretary of Defense for Personnel and Readiness and the human resource management function generally, the following specific actions are recommended:

- Establish a
senior board
- Establish a
civilian advisory group
- Establish a
streamlined decision-making process

- Establish a *senior board* – the Defense Human Resources Board (DHRB) – for raising and resolving strategic issues regarding the way human assets of the department can best meet its future needs. This board would be led by the Under Secretary of Defense for Personnel and Readiness and the Vice Chairman of the Joint Chiefs of Staff.
- Establish a *civilian advisory group* – the Strategic Advisory Group for Human Resources (SAG-HR) – to support the human resource management leaders of the uniformed services and to advise the Secretary of Defense on the efficacy of the strategic human resource management process within the department. This group would consist of individuals – corporate leaders, scholars, and former defense officials and military leaders – with an interest in the future of human resource management.
- Establish a streamlined *decision-making process* – a human resource management milestone process – that can identify, evaluate, support and monitor major changes to the human resource management system, role or processes, to support department and service initiatives.

Why Not Use the Unified Legislation and Budgeting Process?

Recently, the Under Secretary of Defense for Personnel and Readiness, in an attempt to strengthen the people side of the planning process, formalized the Unified Legislation and Budgeting (ULB) process.⁹

⁸ Shaker A. Zahra and John A. Pearce II, "Boards of Directors and Corporate Financial Performance: A Review and Integrative Model," *Journal of Management*, Vol. 15, No. 2 (1989), p. 303.

⁹ This process includes a joint forum for the services to discuss their desired programs and policies and provides a mechanism for the human resource management community to establish budget priorities and agree to legislative initiatives. Membership consists of:

- Under Secretary of Defense (Personnel and Readiness) (Chair).
- Under Secretary of Defense (Comptroller).
- Director, Program Analysis and Evaluation.
- Assistant Secretaries of Defense for Force Management Policy, Health Affairs, Reserve Affairs and Legislative Affairs.
- Assistant Secretaries for Manpower and Reserve Affairs from the services.
- Deputy Chiefs of Staff for Personnel (or equivalent title) from the Army, Navy, Air Force, Marines and Coast Guard.
- Director for Manpower and Personnel, Joint Staff.
- Deputy Under Secretaries of Defense for Readiness and for Program Integration.
- Associate Director for National Security, Office of Management and Budget.

This process was implemented to ensure consistency and direction in personnel policy within the uniformed services, but it focuses generally on near-term rather than strategic issues. As such, the process is tied to the programming and, especially, the budgeting stages of the planning, programming and budgeting process. Although it is particularly effective in prioritizing legislative proposals for changing individual parts of the human resource management system, the Unified Legislation and Budgeting process does not meet to address strategic issues, nor to look into the future and analyze the requirements of the organization, nor to plan for those changes. The Unified Legislation and Budgeting process is, generally, not designed as a mechanism capable of providing fundamental strategic guidance to the Secretary of Defense for meeting the department's human resource needs for the future.

A broader perspective is needed than what can be provided by the Unified Legislation and Budgeting process. The existing process serves an important function today, and this role will be necessary in the future as well. A newly formed Defense Human Resources Board will create the strategic context within which the Unified Legislation and Budgeting process will continue to make necessary operational decisions.¹⁰

The Defense Human Resources Board

The Defense Human Resources Board proposed in this report would generally parallel the Defense Acquisition Board in scope and function. However, implementation of the Defense Human Resources Board will benefit from lessons learned from the evolution of the Defense Acquisition Board so as to avoid potential pitfalls. The Defense Human Resources Board would maintain an integrated human resource management perspective (compensation, personnel management, manpower, training, recruiting, etc.) to complement the existing planning and programming processes of the Department of Defense and the existing service prerogatives. The Defense Human Resources Board, with the advice of the Strategic Advisory Group for Human Resources, would identify major changes in the strategic direction of the Department of Defense and the general shape of the human resource management system required to effect those changes. For the most part, the board would support and respond to service generated initiatives for change (based on their unique needs) that would enable the service to better achieve its goals. Importantly, the board is intended to be facilitative, responsive, and streamlined.

At Tenneco we listened to the strategies of our operating unit managers, and then conducted major capital reviews (i.e., like the department's budget review). We woke up a lot of people when we asked managers, 'Why don't you have any money where your strategic thrust is?'

— Dana G. Mead
Chairman and Chief Executive Officer
Tenneco, Inc.¹¹

A newly formed Defense Human Resources Board will create the strategic context within which the Unified Legislation and Budgeting process will continue to make necessary operational decisions.

... the board would support and respond to service generated initiatives for change (based on their unique needs) that would enable the service to better achieve its goals.

¹⁰ The charter for the Defense Human Resources Board (and the Strategic Advisory Group) would be staffed using normal procedures before being established. The relationship between the Defense Human Resources Board (with its strategic role) and the Unified Legislative Budget process (with its operational role) would be explicitly spelled out in that charter — with a particular focus on avoiding duplication and capitalizing on the advantages of each forum.

¹¹ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

... a critical
role of the
board would
be to articulate
and support
the requests
for tailored
human resource
management
systems where
appropriate
in different
parts of the
department ...

... the
board should
... facilitate the
services' ability to
make a case for
greater authority
and flexibility to
achieve their
strategies and
missions ...

The Under Secretary of Defense for Personnel and Readiness, based on conclusions of the board, would approve the general design of, or major modifications to, the human resource management system, the pilot programs to test major changes in human resource management policies and practices, and full-scale implementation of new human resource management systems. In general, the board would assess whether the human resource management systems of the uniformed services are consistent with the strategic thrust of the Department of Defense as a whole, while advocating appropriate flexibility to address service-unique issues.

The uniformed services possess very little authority today to pursue the flexibility recommended in this report – particularly as it applies to the elements of the compensation system. The long-standing view that a virtually “one-size-fits-all” human resource management system is appropriate for the uniformed services and the more recent emphasis on jointness present a difficult, but necessary, hurdle that must be overcome if different parts of the organization are to benefit from policies and practices tailored to enhance their effectiveness. There are many good reasons for commonality of certain policies and practices to support the strategy of the Department of Defense, as a whole. But all the policies and practices that have been common in the past may not necessarily need to be common in the future; each should be tested against the strategy it is designed to support. Therefore, a critical role of the board would be to articulate and support the requests for tailored human resource management systems where appropriate in different parts of the department – where such systems make sense based on the strategy of that part of the department and where they do not adversely impact the ability of the different parts of the organizations to work together toward the common ends of the department. The Defense Human Resources Board would provide a senior-level forum to make the case within the Department of Defense and to Congress for greater flexibility where it is needed and desirable.

This is not to imply that all decisions affecting the design of a human resource management system are appropriately made by the board. Many “corporate” decisions are more appropriately made, as they are today, at the service level; the board would not restrict existing service flexibilities to address unique issues. In fact, the board should, through a streamlined and responsive process, facilitate the services’ ability to make a case for greater authority and flexibility to achieve their strategies and missions in the context of the overall Department of Defense strategy and mission. Because the focus of the board is to champion tailoring and flexibility in the design of human resource management systems, for those policies and practices that must remain common across the entire Department of Defense, the board would explicitly articulate the reasons – primarily related to strategy – for commonality.

An additional role of the board is to carefully guide the implementation of changes to the human resource management system. In acquisition, new or modified systems can be introduced; and although they may have significant consequences, the consequences are limited or the systems can be modified to minimize the undesirable consequences. When significant changes are made to human resource management systems, however, the consequences can be much more long-lasting and more difficult to recover from. Once they have affected service members, it is difficult or impossible

to reverse the effect. Thus, another function of the board, particularly in the design and conduct of pilot programs, would be to ensure that the consequences are well understood and evaluated before service members are placed at risk.

The Defense Human Resources Board would take a strategic perspective, challenging future requirements and raising human resource management issues that span service, functional and operational areas. Together, the operational and human resource management communities would explore alternatives, thus creating a formal, structured process for introducing major new programs and policies into the organization.

The Defense Human Resources Board would be composed of the following members:

- Under Secretary of Defense (Personnel and Readiness) (Chair).
- Under Secretary of Defense, Comptroller.
- Vice Chairman, Joint Chiefs of Staff (Vice Chair).
- Assistant Secretaries of Defense for Force Management Policy, Health Affairs, and Reserve Affairs.
- Assistant Secretary of Defense (Strategy and Requirements).
- Senior Human Resource Executive of the Army, Navy and Air Force.¹²
- Director, Program Analysis and Evaluation.
- Deputy Under Secretaries of Defense for Readiness and for Program Integration.
- Director for Manpower and Personnel, Joint Staff.
- Chairs of the cognizant working groups, product teams or committees of the Defense Human Resources Board, as appropriate.
- Additional representation (for example, other uniformed services or agencies), as appropriate.
- Defense Human Resources Board Executive Secretary.

Strategic Advisory Group for Human Resources

Based on the concept of a board of directors, an independent Department of Defense Strategic Advisory Group for Human Resources would report through the Under Secretary of Defense for Personnel and Readiness and serve the Defense Human Resources Board. It would fulfill some of the traditional roles of advice and service common in other public sector boards, but its primary role would be senior-level consultation on strategic planning for human resource management in the uniformed services.

... its primary role would be senior-level consultation on strategic planning for human resource management in the uniformed services.

¹² To be determined by the service Secretary, but probably the Assistant Secretaries overseeing the human resource management functions. In the acquisition process, the "senior acquisition executive" is the designated official within the service with the responsibility for overseeing the acquisition process. In most cases this has been the Assistant Secretary of the service for acquisition.

The Strategic Advisory Group for Human Resources would contribute:

- Insight into the process of strategic human resource management outside the uniformed services that could otherwise be obtained only with a widely focused, costly, continuous benchmarking effort.
- Balanced emphasis on the strategic perspective relative to the operational perspective.
- Continuity of strategic intent, in recognition of the relatively frequent rotation of senior military and civilian human resource management leaders.¹³

As one of its duties, this independent advisory group would report to the Secretary of Defense at least once a year on the status of strategic human resource management within the Department of Defense and include recommendations for such changes as in the group's judgment would enhance overall strategic planning for human resource management.

It is important to recognize that the discipline of strategic human resource management is a developing field, with continually emerging pockets of expertise. Tapping into this expertise – particularly at the highest level – is difficult; however, the potential value of doing so is improved organizational performance. Although other organizations' experiences with strategic human resource management are not universally transferable to the uniformed services, this report demonstrates that there is much to be learned. And the knowledge can flow both ways, to the mutual benefit of senior human resource management leadership of the uniformed services and other organizations; therefore, the Strategic Advisory Group for Human Resources would include human resource executives (for example, Senior Vice President level), distinguished academics and possibly consultants from leading human resource consulting firms.

Several precedents for boards of directors exist within the Department of Defense. As noted above, the Commission on Roles and Missions provides one, albeit temporary, example. Others include the Department of Defense Retirement Board of Actuaries and the Defense Science Board.

Department of Defense Retirement Board of Actuaries. The Department of Defense Retirement Board of Actuaries was established to advise the Secretary on the operation of the military retirement fund.¹⁴ The board consists of three civilian members appointed by the President. The board validates the procedures and assumptions used to determine the amount to be contributed by the Secretary of Defense to the military retirement fund to pay for future benefits earned for current service. The board is established as an independent entity, and it brings an understanding of the accepted practices for managing and valuing retirement funds to the overall process. A board of practitioners of strategic human resource management would function in many ways similar to the board of actuaries, though with considerably broader

¹³ This consideration may be more obvious to those within the institution. Within the present military system, the senior civilian and military leaders rotate out of their positions about the time they have gained the knowledge and expertise to set the strategic direction of the human resource management organization. The accumulated knowledge of this group would provide an incoming leader with a valuable resource and tool for continuity and organizational effectiveness.

¹⁴ Section 1464 of title 10, United States Code.

scope, its focus directed toward sharing with the department approaches to strategic human resource management and human resource management policies and practices employed by the best organizations.

Defense Science Board. The acquisition community uses the Defense Science Board (DSB), composed of civilian experts, to advise the Department on scientific, technical, manufacturing and acquisition process issues. On the recommendation of the Under Secretary of Defense for Acquisition and Technology, the Secretary of Defense appoints the chairman of the Defense Science Board. The chairman and members of the board are selected based on their “preeminence in the fields of science, technology and its application in military operations, research, engineering, manufacturing, and acquisition process, . . . and may include officials of other agencies or departments of the government with the expertise desired.”¹⁵ The board is concerned with larger, more strategic issues, such as the application of new technologies in order to strengthen national security, and is not tasked to advise on individual procurements. The Defense Science Board is managed under the guidelines set forth in Public Law 92-463 and DoD Directive 5105.4 for Federal Advisory Committees.¹⁶

Organizational Relationships

The general organizational relationships described above and elaborated below are portrayed graphically in Figure 21 below. The central, driving entity in Figure 21 is the Human Resource Need Statement (HRNS), which is defined in the following subsection.

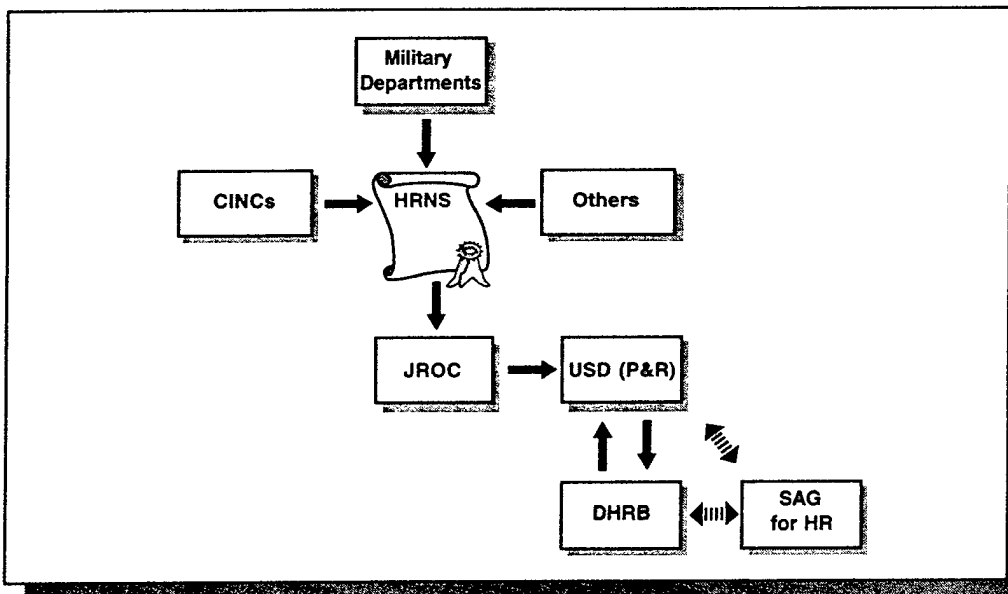


Figure 21 – Defense Strategic Human Resource Management Information Flow

¹⁵ Charter for the Defense Science Board, 28 Feb 1996.

¹⁶ It is interesting to note that the Defense Science Board has been used recently to conduct a task force on Quality of Life issues (October 1995) and a task force on Privatization and Outsourcing (May 1996) – issues that have a major human resource management component. The use of the Defense Science Board to do human resource management work strongly suggests the need for a similar board for the human resource management community to conduct the same kind of functions as the Defense Science Board but oriented toward applications of human resource management trends, processes and systems.

The board would generally consider only the most strategic changes to the human resource management system: changes that would have a profound impact on the character of the system . . .

Human Resource Management Milestone Process

Any major change to the human resource management system, such as the types of changes flowing from the process recommended in this report, because of the paramount need to protect service members currently in the system, will typically unfold over a 10-15 year (or longer) time frame and would be supported and guided by the Defense Human Resources Board. The board would generally consider only the most strategic changes to the human resource management system: changes that would have a profound impact on the character of the system; changes that would require major modifications to statute (authorizing specific changes or providing the department with broad flexibility).

The process followed by the Defense Human Resources Board would parallel, but only at the most general level, that used by the Defense Acquisition Board. It would have a similar interface with the planning, programming and budgeting system and would employ a similar milestone process. The Under Secretary of Defense for Personnel and Readiness, with the Defense Human Resources Board, would monitor the funding for the major changes to the human resource management program during each milestone review and approve a program to proceed through the milestones as phases are completed.¹⁷ The board would meet only at major milestones during the design or implementation of a human resource management system. Changes of the magnitude suggested in this report are unlikely to arise very frequently, and in fact, a prudent approach would be to consider changes limited in their scope of application initially (to relatively small communities that currently operate independently). Focusing on one or two major changes to the human resource management system in parts of the department would provide the opportunity to shape this process to provide effective and efficient decisions in this complex area. A discussion of this process, as it might eventually evolve, follows.

Generation of a Mission Need

An operational requirement expressed as a Mission Need Statement¹⁸ in the acquisition process is generated by a threat, potential economic benefits, or technical opportunities. Similarly, a Human Resource Need Statement (HRNS) would be generated by a desired change in the direction of the organization (such as those outlined in Joint Vision 2010, Force XXI, or Air Force 2025); by an external environmental threat or changing expectations influencing the effectiveness of the human resource management system of the uniformed services (such as changing work place characteristics

¹⁷ These proposals will assist the Under Secretary of Defense for Personnel and Readiness in playing a more active role in the planning, programming and budgeting system. The Under Secretary of Defense for Personnel and Readiness serves as a member of the Defense Resources Board (DRB), which is the senior Department of Defense resource allocation board, chaired by the Deputy Secretary of Defense. As a member, the Under Secretary of Defense for Personnel and Readiness exerts considerable influence over the planning, programming, and budgeting system. But long-term, strategic changes do not now fit within the planning, programming and budgeting system calendar-driven monitoring and planning system. That is why it is necessary for the Under Secretary of Defense for Personnel and Readiness to track long-term, event-driven programs through the planning, programming and budgeting system to ensure long-term funding and stability – and a continual movement toward a shared image of the future human resource management system for the uniformed services.

¹⁸ The Mission Need Statement, as well as other aspects of the Defense acquisition process, are discussed in greater detail in Appendix IX.

or in social-cultural norms in society, at large); or by opportunities to reduce cost, streamline administration, or enhance the effectiveness of a program (such as those derived from innovative policies and practices or use of technology in other organizations). It would, in most cases, originate in a uniformed service.

In cases of major change such as a change in the direction of the department, the Joint Requirements Oversight Council would approve and validate the Human Resource Need Statement (just as it approves the Mission Need Statement in the acquisition process); discuss and approve the mechanism to be used to align the human resource management system, the desired behavior and the expected organizational outcomes; and through the Under Secretary of Defense for Personnel and Readiness, grant permission for program start. Figure 21 illustrates the organizational context that generates a Human Resource Need Statement.

In other cases, involving less fundamental shifts (such as a changing environment, changing expectations, or economic and technical opportunities), the Defense Human Resources Board would evaluate identified human resource needs and make similar strategy, behavior and outcome decisions. The Under Secretary of Defense for Personnel and Readiness would chair, and the Vice Chairman of the Joint Chiefs of Staff would co-chair, the board. Although many human resource *needs* would not begin with the approval of the Joint Requirements Oversight Council, membership of the Vice Chairman of the Joint Chiefs of Staff on the board would ensure the highest level of operational input.

An approved Human Resource Need Statement is the first step in the process (Milestone 0 decision). The Under Secretary of Defense for Personnel and Readiness grants approval to proceed with Phase 0 (concept studies). Figure 22 depicts the milestone decision-making process.

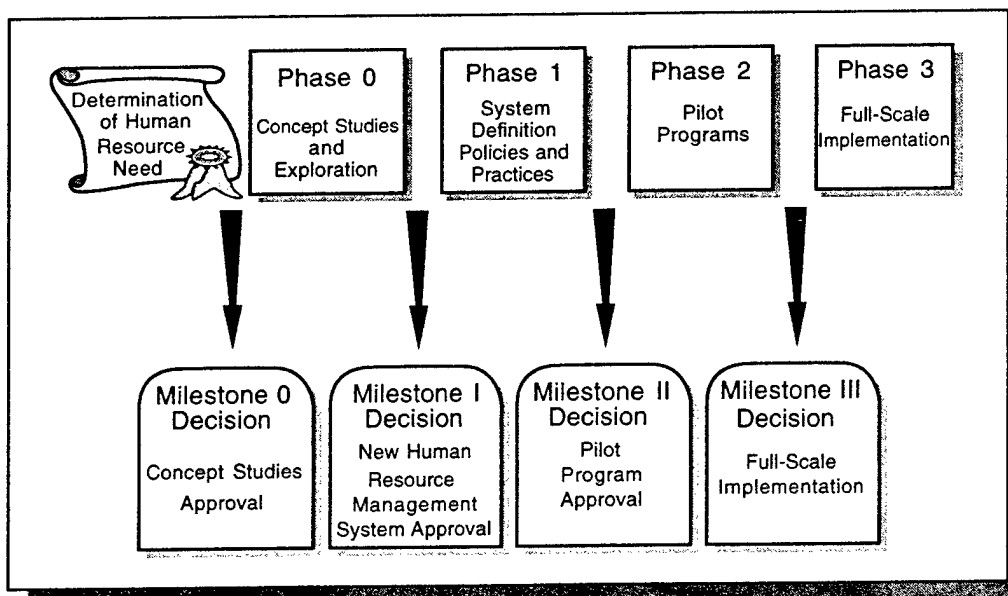


Figure 22 – Human Resource Management Milestone Process

Phase 0, Concept Studies

During Phase 0 of the process (concept studies), the Under Secretary of Defense for Personnel and Readiness directs the commitment of initial resources to begin the work approved by the board at Milestone 0. Potential sources for conducting these studies include senior service schools, a consortium of academic institutions, the Strategic Advisory Group for Human Resources, contractors, Federally Funded Research and Development Centers, future quadrennial reviews of military compensation, or in-house staff.

Concept studies examine the theory, empirical evidence, and trends in human resource management policies and practices that could potentially support the selected strategy, behaviors and organizational outcomes, and provide alternative solutions to the Human Resource Need Statement. These studies lead to the general description of alternative human resource management system designs (or other solutions to the human resource need) with initial estimates of implementation (administrative, staffing, training, etc.) and budget (compensation/reward, retirement, benefits, etc.) cost. Although the benefits of a change to a human resource management system at this stage will be difficult to estimate, the concept studies should make every effort to gather empirical data upon which to provide as definitive an estimate as possible. The experience of other organizations can be useful in providing, at least, an order of magnitude assessment of expected benefits. These benefits may be captured in a variety of categories, including for example, production value – productivity, efficiency, and quality factors; financial value – cost avoidance and expense reduction; and human value – security, safety, career growth, morale, cooperation, and job satisfaction.¹⁹ Some will be quantifiable in dollars, but others will measure the potential effectiveness of a change in non-monetary terms. Consequently, a cost-effectiveness analysis is an appropriate means of presenting this information. The Milestone I decision includes corporate guidance that sets forth the constraints under which the design of the human resource management system must operate and constitutes approval to proceed with Phase 1 (system definition).

Phase 1, System Definition

This phase begins with the formation of an Integrated Process Team made up of members of the human resource management community, the operational users, and the support contractors. This team remains intact, committed to the project from system design through full-scale implementation. The integrated team structure promotes an attitude of cooperation, empowerment and experimentation. During this phase, the team develops specific policies and practices that support choices made in Phase 0 and metrics to measure the success of the new system of policies

¹⁹ Jac Fitz-enz, *Human Value Management: The Value-Adding Human Resource Management Strategy For the 1990's* (San Francisco, CA: Jossey-Bass Inc., 1990), p. 292.

and practices – such as the ability to achieve the strategic intent of the change, the cultural implications of the change and the desired organizational outcomes.

In the case of a desired change in the fundamental direction of the organization, this phase would ensure defense-wide considerations – manifested as corporate guidance – are taken into account in the fundamental design of the human resource management system. The major task in this phase is to develop policies and practices tailored to the specific needs of the strategic subunits and consistent with the corporate guidance.

Typical issues discussed in a Defense Human Resources Board meeting considering the Milestone II decision would be horizontal integration of other functions with the new human resource process (such as technical support, financial and information systems), cost and funding (a more refined estimate of the cost-effectiveness analysis conducted prior to the Milestone I decision), implementation schedule, pending and required legislation, and metrics to measure the success or failure of the pilot. Approval at the end of this phase (Milestone II decision) initiates Phase 2, a pilot or pilots to test the critical policies and practices that make up the recommended human resource management system and to obtain better estimates of the costs and benefits associated with the change.

Phase 2, Pilot Studies

Phase 2 tests the concepts approved earlier and seeks appropriate legislative authorities.

The purpose of pilot studies is to learn from a test of the concept to reduce the risk of unintended consequences upon implementation. Pilot tests are essential in a system change of this magnitude – a change comparable to the transition from conscription to an all-volunteer force. Only such a major strategic change in the human resource management system will be elevated to the Defense Human Resources Board. The pilot demonstrates the ability of policies and practices to achieve the intent of the corporate guidance and to promote the specific behaviors desired by the strategic subunits. It also demonstrates the successful alignment of policies and practices and the successful integration of the human resource management system with other systems. Finally, it provides additional information on which to estimate the costs and benefits of implementing the new system; these estimates support the final cost-effectiveness analysis. At the end of this phase (if the change is a major change in strategic direction for the Department of Defense), the Joint Requirements Oversight Council becomes involved in reviewing the results of the pilot.

Based on this input and the results of the pilots, the Under Secretary of Defense for Personnel and Readiness approves full-scale implementation (Milestone III decision).

Phase 3, Full-scale Implementation

This phase expands the system design from implementation at a pilot level to full-scale implementation throughout the organization or department. During this phase, the team communicates changes to the affected service members; incorporates system objectives and design in professional military training; and institutes changes to the role, skills and training of military leaders, with special emphasis on the new role of the human resource management experts.²⁰ The team also continues tailoring policies and practices, and the Defense Human Resources Board periodically reviews initial implementation results. Products of this phase includes a methodology for continuous evaluation of effectiveness and a process for accomplishing continued change and tailoring.

Ultimately, the goal is completion and turnover of the responsibility during implementation from the Integrated Process Team to the functional staff in human resources.

²⁰ The importance of a well-structured change management program is discussed in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part III: Managing Change* (Washington, DC: 8th QRMC, June 30, 1997).

CHAPTER 7

A VISION OF HUMAN RESOURCE MANAGEMENT

... the changes suggested here require a vision of human resource management.

This report is not about obtaining service members with better skills, or doing more with less; rather, it is about unleashing the power and potential within service members to contribute fully to outcomes important to the department and its subunits. The discussion and recommendations outlined to this point suggest a substantially different way of thinking about compensation and other human resource management practices in the future. Following this path implies changes – changes to the way the department organizes and manages service members; changes to the way the department rewards, promotes, recruits and trains; in short, changes to the department's *culture*. Change requires a vision; the changes suggested here require a vision of human resource management.

Describing the Vision

A vision of human resource management for the uniformed services serves two overarching purposes. First, it explicitly articulates, at the broadest level, the underlying, fundamental beliefs and purpose of human resource management. In the absence of such an explicitly stated philosophy, human resource leaders are often forced to make assumptions about what policies and practices are appropriate in the tactical environment in which they operate. Second, a vision identifies ways to

We are systematically taking our vision and our values and trying to make them a reality in how we run the place; it's tortured, difficult and aggravating because often you discover you've done things you wish you hadn't.

— Paul O'Neill
Chairman and Chief Executive Officer
Aluminum Company of America¹

We have spent quite a bit of time thinking through what our vision statement is, what values and principles we operate under. We really believe that the vision drives people more than anything else.

— Joseph Neubauer
Chairman and Chief Executive Officer
ARAMARK Corporation²

progress toward achieving desired outcomes and creates a vivid image of future possibilities that all leaders (from flag and general officers to petty officers and NCOs) can share and help achieve. It establishes what the human resource management function defines as successful policies and practices. Figure 23 depicts such a vision for human resource management.

¹ "In Search of Ethics, Alcoa Pursues a Corporate Conscience Through Emphasis on 'Core Values,'" *Washington Post*, March 31, 1991, pp. H1, H4.

² From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

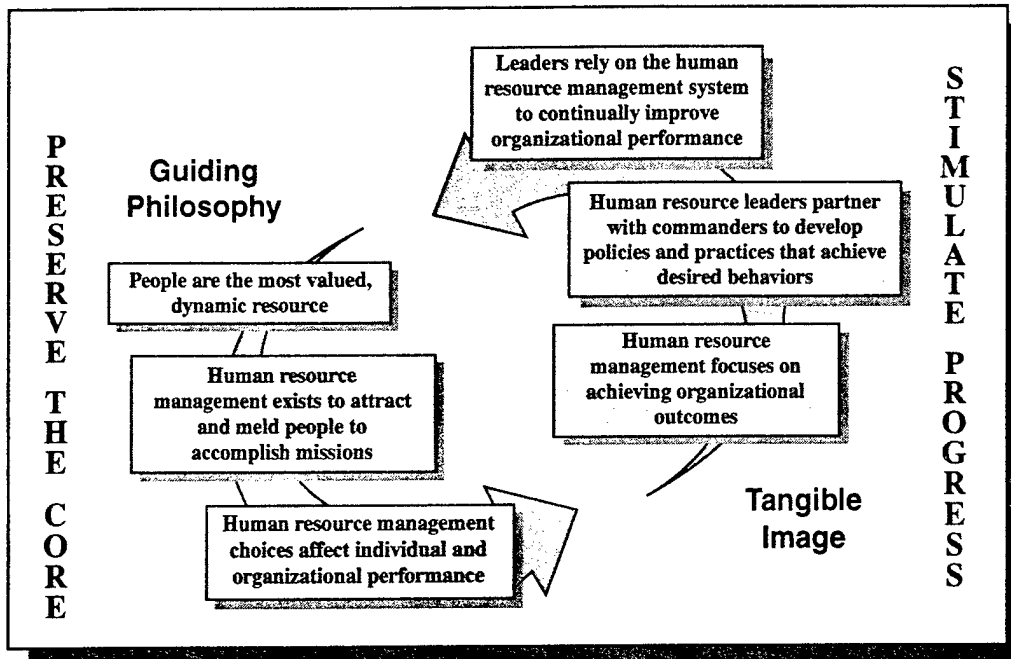


Figure 23 – A Vision of Human Resource Management

As suggested in Figure 23, this vision of human resource management requires the organization to identify the broad values and beliefs that it holds about people, about managing and organizing people, and about how those values and beliefs relate to people inside and outside the organization. This is the kind of picture the human resource leader should have in mind when assuming a strategic role.

The left half of Figure 23 indicates that a guiding philosophy emphasizing the *importance of people* underlies the system. Human resource management exists to attract and meld people into organizational capability to accomplish the mission. Fundamental choices about rewarding, organizing and managing people affect individual and unit performance. On this foundation, the right half of the figure paints an image of human resource management in the uniformed services in the 21st century. The human resource management function does more than deliver high-quality, trained people: It offers innovative approaches for motivating behavior and for enhancing productivity. Human resource management focuses people's energies toward achieving organizational outcomes that are key to the goals and missions of the various organizations within the uniformed services. The human resource leaders partner with commanders to develop policies and practices that achieve the desired behaviors and performance commanders want. The system is designed to continuously and systematically reinforce the commander's intent, and so contributes to improving organizational performance. Overall, a vision of human resource management establishes a common theme – a shared context – for personnel-related issues, policies, and practices.

Human resource management focuses people's energies toward achieving organizational outcomes that are key to the goals and missions of the various organizations . . .

... this vision moves the focus of the human resource management community from being "function-centric" to "organization-centric."

Three types of change need to occur in order to institutionalize strategic human resource management.

Fundamentally, this vision moves the focus of the human resource management community from being "function-centric" to "organization-centric." The characteristics of this new focus are summarized in Figure 24. Adopting this focus would "revolutionize how business is done" in the human resource management community. It leads the way to valued-added human resource management.

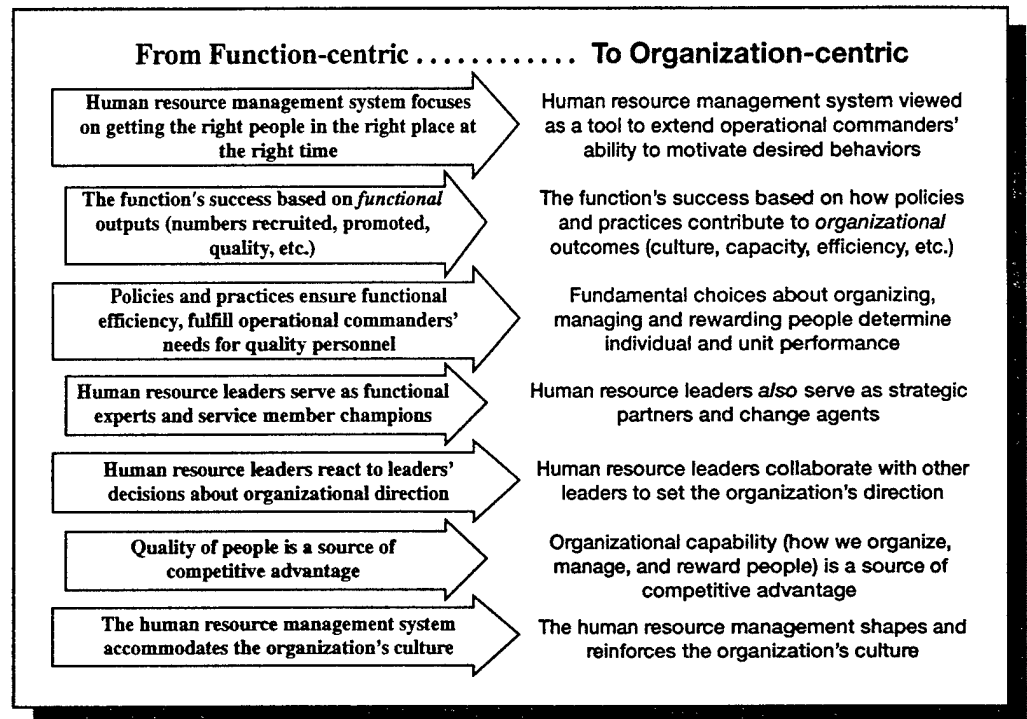


Figure 24 – Value-added Human Resource Management

Working Toward the Vision

This vision represents an image of what the human resource management function *could be* in the future. It depends upon the desire and commitment of human resource leaders to shape the future, to see a future that does not yet exist. Human resource leaders must connect the vision to specific actions that need to be accomplished.

Three types of change need to occur in order to institutionalize strategic human resource management. First, the *role* of human resources managers must expand from that primarily of a functional expert and employee champion to include and emphasize becoming a change agent and strategic partner. The second change is to the *process* human resource and other leaders use to make decisions. This strategic process must focus on broader, future organizational outcomes rather than the current tactical orientation used today. The final change is to the *philosophy* and *design* of the human resource management system; a new system must allow for tailoring and flexibility to support the organizational needs of selected subunits.

Specifically human resource leaders must:

- Pursue the establishment of a Defense Human Resource Board organized to provide the Under Secretary of Defense for Personnel and Readiness a strategic decision making body that challenges straight-line assumptions about future requirements and raises human resource management issues that span service, functional and operational areas.
- Work with commanders and leaders at all levels of the organization and select a direction for the organization. This direction could be the organizational outcomes suggested by Joint Vision 2010 or those suggested on a smaller scale such as the need for more innovative behavior in the acquisition community. Commanders and leaders must commit time and resources to develop human resource management system designs to support the changes needed to achieve their organization's strategic intent. Initial meetings for this purpose will require the input of the highest level of human resource leaders and their commitment to the vision.
- Begin educating future military leaders on the strategic approach. Expand the professional military education curriculum on leadership skills to include the use of the human resource management system to support the commander's intent.

The greatest power of vision is its ability to excite and unite people within an organization in a common effort that results in the attainment of the organization's purpose, mission, vision, strategy and full potential. It allows people to see possibilities for the organization in the future that are not visible in current reality. People begin to want the organization to be the way they can imagine it through the vision. They become eager to expend their every working hour completing tasks and missions that move the organization toward the image created in the vision.

Vision represents the best that could happen to the organization – starting now and extending into the future.

Visions are about change. Change is difficult. Usually it takes a crisis to mobilize an organization to start down the path of change. The uniformed services do not face a crisis today.

But in the best organizations, visions are also about opportunity. The vision described above, together with the strategic approach to human resource management recommended in this report, afford an opportunity – in the absence of a crisis – to facilitate change in the strategic direction, to make leaders more effective, and to enhance organizational performance.

But in the best organizations, visions are also about opportunity.

The time to think about change is when you're at the top of the game, because at that time you have alternatives. Don't wait until you're on the downside and get forced into a crisis and into decisions that may not be the best.

— General Richard D. Hearney
Assistant Commandant
United States Marine Corps ³

³ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

APPENDICES TO THE EXECUTIVE REPORT

APPENDIX I

PRESIDENTIAL CHARTER

THE WHITE HOUSE

WASHINGTON

January 27, 1995

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: The Eighth Quadrennial Review of Military Compensation (QRMC)

Under the provisions of section 1008(b) of title 37, United States Code, every 4 years the President shall direct a complete review of the principles and concepts of the compensation system for members of the uniformed services. You will be my Executive Agent for this review, consulting with me as the occasion requires.

Today's national security strategy reflects both America's vital interests and its commitment to freedom, equality, and human dignity. While many factors contribute to our Nation's safety and well-being, no single element is more important than the men and women who wear our country's uniform and stand sentry over our security. Their skills, service, and dedication constitute the core of our defenses.

The existing military compensation system has allowed us to attract and retain high quality members -- resulting in the finest armed forces in the world today. It is our challenge to support the men and women who serve today and to ensure the vitality of the forces that will protect our Nation in years to come. The Eighth QRMC should address both challenges. First, for the long term, the QRMC should look to the future and identify the components of a military compensation system that will attract, retain, and motivate the diverse work force of the 21st century. Second, for the short term, the QRMC should recommend ways to reengineer those elements of the military compensation system that support the readiness and quality of life initiatives that I have endorsed and to expedite the adoption of new approaches that put people first and allow them to work better.

As Executive Agent, you should ensure that representatives of other executive branch agencies participate in this review as appropriate.

I look forward to your progress in this important undertaking.

William S. Clinton

APPENDIX II

STRATEGIC COMPENSATION AND STRATEGIC RESOURCE MANAGEMENT

The design process begins by determining the organization's strategy for achieving a competitive advantage. This determination allows the organization to focus on the individual and organizational behaviors it wants to emphasize and encourage via the compensation system.

A number of sources were useful in providing a framework within which to work through the difficult challenge of developing a design process. This appendix summarizes these sources.

The writings of Edward E. Lawler III, of the Center for Effective Organizations at the University of Southern California, were particularly helpful. Much of Lawler's work ¹ has focused on compensation issues; more recently, he has emphasized the need to broaden consideration to human resource management, generally.

In *Strategic Pay* (one of his most influential books), Lawler lays out a framework for a compensation system designed to support the organization's strategy and culture, stressing the need to align all the elements of an organization's compensation system with its strategy. He asserts, "[T]he challenge is to develop pay programs that support and reinforce the business objectives of the organization and the kind of culture, climate and behaviors that are needed for the organization to be effective." ² One can infer that organizations will improve their effectiveness further by using the entire human resource management system to reinforce its business objectives, culture, climate and behaviors.

Strategic Pay discusses a design process for compensation systems – specifically, paying for performance, determining base pay, administering pay systems and applying various compensation strategies. The design process begins by determining the organization's strategy for achieving a competitive advantage. This determination allows the organization to focus on the individual and organizational behaviors it wants to emphasize and encourage via the compensation system. His approach uses compensation systems to achieve strategic objectives by influencing the individual and by interacting with other policies and practices of the organization; it also relies on a set of core principles that govern the compensation system (as well as other elements of the human resource management system). ³

Specifically, compensation systems can be designed to influence the individual in a variety of ways. A strategic compensation system will identify measurable performance that reinforces the strategic objectives of the organization; identify valued rewards that motivate performance; relate rewards to performance so that rewards are seen by individuals as directly connected to their performance; set performance goals that individuals feel are achievable; apply motivation and punishment in a judicious

¹ Lawler (1990).

² Lawler (1990), p. 11.

³ Lawler (1990), pp. 13-52.

manner;⁴ motivate skill and knowledge development via the compensation system, leading to the right skill mix at all levels in the organization; and foster attraction and retention by offering the most valued rewards compared to other organizations.

But, according to Lawler's framework, compensation systems also influence the organization. For example, a strategic compensation system will influence organizational structure through the reward system to emphasize either integration of or differentiation between work groups within the organization; shape organizational culture by using rewards to cause beliefs to develop about what is rewarded, what is valued, how fair the organization is, how open the organization is and how people are treated; and meet cost objectives strategically by attempting to minimize labor costs relative to both the volume and quality of the products or services produced and relative to the competition.

Core design principles establish a framework that applies to all elements of the human resource management system. This framework can be used to manage beliefs through considered communications in ways that produce the desired organizational behaviors. A strategic compensation system develops core principles based on the organization's strategy and core values. These key principles (a partial, but critical, list) include pay for performance; the basis for pay (namely, job-based versus skill-based); market comparisons (relative to similar organizations); internal comparisons (among individuals doing similar work); benefits; process issues (how openly and freely can employees discuss pay issues among themselves); and due process (namely, internal review and appeal processes). The design process ensures fit between core principles and practices (how well the principles are executed).

Other authors have suggested strategic approaches as well, again mostly focused on the compensation system.⁵

Muczyk⁶ emphasizes the need for congruence among organizational culture, the organization's strategy, employee performance, rewards and compensation strategies. This congruence is not only fundamental to appropriately designed compensation systems but is fundamental to integrated human resource management systems as well. Muczyk states, "[T]here needs to be congruence between goals that organizations seek, strategies that are most likely to attain these goals, cultures that support these strategies, and reward systems that elicit and maintain behaviors that are consonant with the appropriate competitive strategy and its supporting culture."⁷ Muczyk stresses the need for organizations to recognize the "motivational threshold of incentives." The importance here lies in establishing a strong connection between performance and rewards. Furthermore, this connection can not be established without first creating reliable and valid performance appraisals.

Muczyk emphasizes the need for congruence among organizational culture, the organization's strategy, employee performance, rewards and compensation strategies . . . is not only fundamental to appropriately designed compensation systems but is fundamental to integrated human resource management systems as well.

Schuster and Zingheim offer descriptions of compensation policies and practices tied to particular strategies of the organization.

⁴ That is, no matter how attractive a particular reward might be, if the punishment for failing to achieve the level of performance required for the reward is considered severe, few individuals will be motivated to seek the reward.

⁵ These other approaches are described more fully in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*, Appendix III.

⁶ Muczyk, pp. 225-239.

⁷ Muczyk, p. 225.

Turnasella . . . stresses the need for the compensation system to communicate the proper message to employees about what behaviors, values and roles the organization desires from its employees.

Fuehrer has a helpful focus on aligning people's skills, behaviors, needs and desires with management's strategies in order for the organization to realize an increase in organizational performance and effectiveness.

Schuster and Zingheim⁸ discuss a proposed shift from what they describe as "traditional pay" to "new pay." They outline the "whys" and "hows" of designing new pay strategies. Their underlying theme is to develop new pay systems aligned to "business, financial, and human resource goals."⁹ In particular, they offer descriptions of compensation policies and practices tied to particular strategies of the organization. "New pay requires an alignment between what the organization wants done and the role total compensation plays in helping the organization and employees win together."¹⁰ The authors' book contains a very useful appendix that outlines a set of questions that can be used as a process for describing a "new pay" compensation system.

Turnasella's¹¹ main focus (like others) is to link an organization's compensation policies to its strategy. He stresses the need for the compensation system to communicate the proper message to employees about what behaviors, values and roles the organization desires from its employees. "Strategic pay plans need to align pay with both the company's business strategy and the values and expectations of the employees."¹² He defines what he calls the four basic components of pay: base pay, experience pay, results-based variable pay and behavior-based variable pay. He discusses each component of compensation in terms of four factors: compensation dynamic, expectations, objectives and message potential. His process¹³ defines basic employee groups based on their values, compensation needs and skills; defines a strategic role for each basic employee group; determines the appropriate total compensation for each employee group; determines base pay levels; determines the role of experience pay; and designs and implements variable pay plans where appropriate.

Fuehrer¹⁴ has a helpful focus on aligning people's skills, behaviors, needs and desires with management's strategies in order for the organization to realize an increase in organizational performance and effectiveness. Specifically, her process includes establishing a total reward philosophy; defining the categories of performance or productivity outcomes or both (for example, defining key result areas, identifying behaviors to help employees be successful, defining strategic objectives); determining required skill sets; and developing specific reward system approaches (by defining objectives for each reward system and developing a strategy for each reward element).

⁸ Jay R. Schuster and Patricia K. Zingheim, *The New Pay: Linking Employees and Organizational Performance* (New York, NY: Macmillan, 1992).

⁹ Schuster and Zingheim, p. 30.

¹⁰ Schuster and Zingheim, p. 58.

¹¹ Ted Turnasella, "Aligning Pay with Business Strategies and Cultural Values," *Compensation and Benefits Review*, September-October 1994, pp. 65-72.

¹² Turnasella, p. 72.

¹³ Turnasella, pp. 70-72.

¹⁴ Vicki Fuehrer, "Total Reward Strategy: A Prescription for Organizational Survival," *Compensation and Benefits Review*, January-February 1994, pp. 45-50.

Gubman¹⁵ offers a process to align human resource practices with business strategy. He states, "For a company to be successful, human resources must align the company's people strategies and management processes with its business strategies. This is the critical task facing human resource functions today."¹⁶ He begins his process by stressing the need for choosing one of three "value disciplines," which is a term used to classify business strategies from the customers' definition of value. He then matches value disciplines and people requirements; develops people strategies; and ensures a good fit between human resource systems and the value discipline chosen.

Flannery, Hofrichter and Platten emphasize the necessity of properly aligning "pay strategies with . . . constantly evolving culture, values, and business strategies"¹⁷ to increase organizational performance. The authors outline four work cultures and address how to design compensation systems that are aligned with their respective culture. The *functional* culture is described as an older, more traditional work culture in which individuals perform narrowly defined tasks. They are rewarded for reliable performance over time, primarily via base salary. The *process* culture is focused on groups and teams, rewarded for quality and customer service. The authors suggest using broad salary ranges to "recognize the natural and obvious differences in work and jobs, while at the same time minimizing the distinctive specializations within a team."¹⁸ *Time-based* cultures exist to "create project teams that can develop, build, and/or market new products and services, reengineer costs out of existing products and services, and continually decrease cycle time."¹⁹ Therefore, competency-based broadbanding pay systems are used to reward individuals for their skills and specialties, as well as to reward the development of team competencies. Some process and time-based cultures eventually evolve into *network* cultures, which require more dramatic changes to their compensation systems. These cultures are composed of individuals who already possess finely honed technical skills and competencies, so that there is little need for benefits or other long-range components in their pay. These individuals often negotiate their compensation packages, which typically contain a sizable base salary and long-term incentives based on the successful performance of the organization. As organizations evolve from one culture to another, "[t]he key is at all times to keep a foot in both camps – where you are today, and where you want to be tomorrow."²⁰

Theories and empirical observations from the literature apply to organizations, generally, and may likewise inform decisions about organizations in the uniformed services, although as noted earlier accommodations are needed to reflect the effect of a unique set of core values.

Gubman offers a process to align human resource practices with business strategy.

Flannery, Hofrichter and Platten emphasize the necessity of properly aligning "pay strategies with . . . constantly evolving culture, values, and business strategies" . . .

¹⁵ Edward L. Gubman, "Aligning People Strategies with Customer Value," *Compensation and Benefits Review*, January-February 1995, pp. 15-22.

¹⁶ Gubman, p. 15.

¹⁷ Flannery, Hofrichter and Platten, p. 253.

¹⁸ Flannery, Hofrichter and Platten, p. 134.

¹⁹ Flannery, Hofrichter and Platten, p. 138.

²⁰ Flannery, Hofrichter and Platten, p. 143.

APPENDIX III

CONTINGENCY THEORY

Strategic contingency theory . . . implies there is no universal set of fundamental choices that is optimal for all organizations.

Contingency theory states that “there is no one best organizational form but several, and their suitability is determined by the extent of the match between the form of the organization and the demands of the environment.”¹ “As a branch of systems design, contingency theory emphasizes that design decisions depend – are contingent – on environmental conditions.”²

Strategic contingency theory, an adaptation of the basic theory, recognizes the power of choice within the organization to confront and respond to the challenges and opportunities in the environment.⁴

“The choice of strategy itself serves as an important contingency for many administrative decisions such as organization structure, management systems, and choice of key management personnel.”⁵ Strategic contingency theory, therefore, implies there is no universal set of fundamental choices that is optimal for all organizations.⁶ According to strategic contingency theory, the effective operation of an enterprise depends on an appropriate match between the organization’s strategy and the organization, its tasks, the demands of its environment, and the needs of its members.⁷

[Strategic] contingency theory . . . assumes organizations to be open systems that confront and respond to variable challenges and opportunities in their environments. However, rather than assuming that administrators are highly constrained in their decisions, strategic contingency theorists emphasize the importance of choice.³

The pervasive influence of contingency theory can be found throughout numerous studies in organization theory,^{8,9} strategy,¹⁰ leadership,¹¹ and compensation;¹² and it

¹ W. Richard Scott, *Organizations: Rational, Natural, and Open Systems* (Englewood Cliffs, NJ: Prentice Hall, 1992), p. 98.

² Scott, p. 89.

³ Scott, p. 112.

⁴ Scott, p. 112.

⁵ Ari Ginsberg and N. Venkatraman, “Contingency Perspectives of Organizational Strategy: A Critical Review of the Empirical Research,” *Academy of Management Review*, Vol. 10, No. 3 (July 1985), p. 423.

⁶ Ginsberg and Venkatraman, p. 421.

⁷ Gibson Burrell and Gareth Morgan, *Sociological Paradigms and Organizational Analysis* (London, England: Heinemann, 1979).

⁸ Paul R. Lawrence and Jay W. Lorsch, *Organization and Environment* (Homewood, IL: Irwin, 1967).

⁹ James D. Thompson, *Organizations in Action* (New York, NY: McGraw-Hill, 1967).

¹⁰ Raymond E. Miles and Charles C. Snow, *Fit, Failure and the Hall of Fame* (New York, NY: Free Press, 1994).

¹¹ Fred E. Fiedler, *A Theory of Leadership Effectiveness* (New York, NY: McGraw-Hill, 1967).

¹² Edward E. Lawler III, *Strategic Pay: Aligning Organizational Strategies and Pay Systems* (San Francisco, CA: Jossey-Bass Publishers, 1990).

is especially relevant in the strategic context. As Ginsberg and Venkatraman observe, “it is perhaps a truism that any theory of corporate or business strategy must be, by definition, contingency-based.”¹³

Contingency theory applies at all levels of the organization. The challenges, the environment, and many other factors differ at the different levels and across major operating units. Fundamental choices also differ across the organization, contingent on the context within which the different levels and units operate. The key implication of contingency theory for strategic human resource management is that *no one human resource management system design best serves all organizations*. Taking this axiom one step further, to achieve maximum effectiveness in a large diverse organization, different subunits may require different human resource management systems or a system with sufficient flexibility to meet subunit needs.

The key implication of contingency theory for strategic human resource management is that *no one human resource management system design best serves all organizations*.

¹³ Ginsberg and Venkatraman, p. 421.

APPENDIX IV

DIMENSIONS OF HUMAN RESOURCE MANAGEMENT SYSTEMS

CULTURE AND ORGANIZATIONAL DESIGN			
Risk Averse	⇔	Risk-taking	The organization avoids mistakes through extensive procedures and prescribed routines (risk averse) <i>versus</i> the organization is willing to accept mistakes and risk in striving for superior performance (risk-taking).
Results	⇔	Process	In attaining organizational goals, the organization places importance on obtaining results <i>versus</i> the organization places importance on the process and behaviors by which the results are obtained.
Individualism	⇔	Collaboration	On the job, employees accomplish their work by working strictly as individuals <i>versus</i> employees accomplish their work by collaborating extensively.
Transactional Leadership	⇔	Transformational Leadership	The organization's senior leadership focuses primarily on setting internal measurements such as standards and goals (transactional) <i>versus</i> senior leadership focuses primarily on large-scale issues such as identifying environmental threats and opportunities and reshaping core aspects of the organization (transformational).
Fixed Policies	⇔	Flexible Policies	The organization's policies are fixed and standardized, applying to all employees <i>versus</i> managers have considerable discretion in modifying and tailoring policies to fit both mission and employee needs.
Short Term	⇔	Long Term	The energies of the organization are directed at actions promising quick payoff <i>versus</i> the organization focuses on selecting and achieving near-term actions because they contribute to the accomplishment of a desired long-term goal.
Autocratic	⇔	Participative	Management and decision-making processes within the organization are directive and rule-based <i>versus</i> management and decision-making processes are open and participative.
Closed Communications	⇔	Open Communications	Information about the terms of individual employment contracts is held confidential <i>versus</i> information about the terms of individual employment contracts is disclosed and widely shared.
Reactive	⇔	Proactive	The organization focuses on addressing problems as they arise <i>versus</i> the organization addresses potential issues in light of how they contribute to achieving future goals and outcomes.
Low Decision Autonomy	⇔	High Decision Autonomy	The organization prescribes absolute rules that apply to the entire organization <i>versus</i> the organization sets forth broad guidance that can be modified and tailored by management to fit their circumstances, employees and mission needs.
Low People Orientation	⇔	High People Orientation	Management focuses exclusively on mission requirements in making decisions <i>versus</i> management actively considers the impact its decisions will have on the workforce.
Low Concern for Quality of Work Life	⇔	High Concern for Quality of Work Life	Management focuses entirely on ensuring work completion regardless of working conditions <i>versus</i> management believes a high quality of work life, as indicated by programs such as flexible schedules, job sharing, telecommuting, etc., contributes to increased productivity.

CULTURE AND ORGANIZATIONAL DESIGN (CONTINUED)

Steep Structure	⇔	Flat Structure	The organizational hierarchy has many levels of control and supervision <i>versus</i> the organizational hierarchy has few levels of control and supervision.
Simple Job Design	⇔	Holistic Job Design	Jobs are designed around simple, discrete tasks requiring specific skills <i>versus</i> jobs are designed around multiple, complex tasks that require a variety of skills, a wider range of abilities and more in-depth knowledge.
Centralized	⇔	Decentralized	Decision-making authority for the organization is confined to headquarters <i>versus</i> decision-making authority is delegated to subunits within the organization.
Individual	⇔	Team	The work of the organization is generally structured to be performed by individuals working alone <i>versus</i> the work of the organization is generally structured to be performed by teams.

COMPENSATION

Job	⇔	Skill	Individuals are paid based upon the job they currently perform <i>versus</i> individuals are paid based upon the skills they possess regardless of whether they use those skills in their present job.
Egalitarian	⇔	Hierarchical	Practices, policies and benefits apply equally to a wide cross-section of employees (egalitarian) <i>versus</i> practices, policies and benefits apply differently to employees as the employee progresses through the organizational hierarchy.
Internal Equity	⇔	External Equity	The organization emphasizes consistency and fairness in the pay structure within the organization <i>versus</i> the organization attempts to ensure employees are paid consistently compared to the market value for their skills and services.
Longevity	⇔	Performance	The organization rewards employees for remaining with the organization <i>versus</i> the organization rewards those employees who contribute through their superior performance to the success of the organization.
Fixed Pay	⇔	Variable Pay	The organization pays employees a substantial amount of their pay at a fixed, stable rate <i>versus</i> the organization pays employees a substantial amount of their pay according to a formula that relates the amount of pay received to an output or outcome measure.
Individual Pay	⇔	Group Pay	The employee receives pay, related to performance, based upon individual contribution <i>versus</i> the employee receives pay, related to performance, based upon group contribution.
Low Investment in Benefits	⇔	High Investment in Benefits	The organization provides or offers few benefits to the employee <i>versus</i> the organization provides or offers an extensive, comprehensive benefits package to the employee.
Fixed Benefits	⇔	Flexible Benefits	The organization offers a standard package of benefits to the employee <i>versus</i> the employee has the option to tailor the selection of benefits desired to meet the employee's needs.
Monetary Rewards	⇔	Nonmonetary Rewards	Rewards for superior performance are typically cash or benefit-related <i>versus</i> rewards for superior performance are typically nonmonetary rewards such as recognition.
On-the-Spot Rewards	⇔	Scheduled Rewards	The organization rewards employees on a spontaneous basis <i>versus</i> employees are rewarded only at specified intervals.
Frequent Rewards	⇔	Infrequent Rewards	The organization rewards employees on a frequent, continuous basis <i>versus</i> the organization rewards employees infrequently.

Appendix IV – Dimensions of Human Resource Management Systems

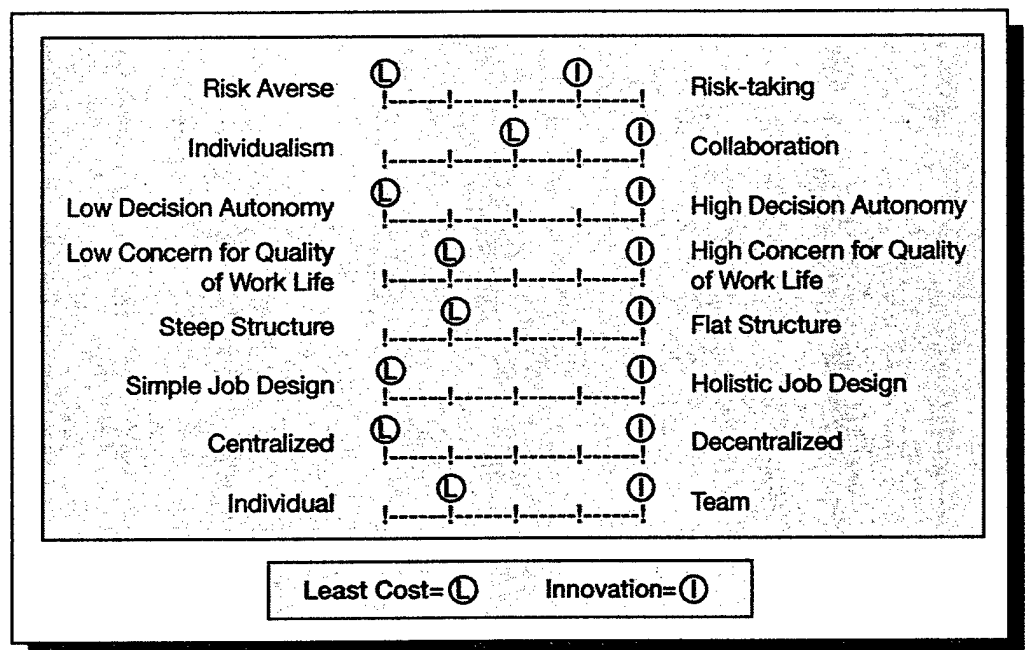
STAFFING		
Internal Labor Supply	⇔	External Labor Supply
Narrow Career Paths	⇔	Broad Career Paths
Vertical Development	⇔	Horizontal Development
Screen by Attrition	⇔	Extensive Initial Screening
Job Fit	⇔	Organizational Fit
PERFORMANCE MANAGEMENT		
Objective	⇔	Subjective
Evaluative	⇔	Developmental
Single-source Appraisal	⇔	Multi-source Appraisal
Individual Appraisals	⇔	Group/Team Appraisals
Process/Behavior Oriented	⇔	Results Oriented
Time Series Comparison	⇔	Cross-section Comparison

DEVELOPMENT		
Job Skills	⇔	Career Development The organization provides training for skills needed for a specific job <i>versus</i> the organization provides broad training for career development and progression.
Limited Training	⇔	Extensive Training The organization provides minimal training and development <i>versus</i> the organization provides extensive, comprehensive training to employees.
Formal Training	⇔	Informal Training The organization provides formal, structured training sessions for employees <i>versus</i> the organization provides informal training.
Training Conducted Internally	⇔	Training Conducted Externally The organization uses its own employees to conduct training <i>versus</i> the organization employs external programs and facilities to conduct employee training.
Periodic Training	⇔	Just-In-Time Training Training is provided on a regular basis to any employees who need training in a particular area <i>versus</i> training sessions are scheduled based upon specific needs when the needs arise.
Individual Training	⇔	Group Training Training programs are designed to be taught at the individual level <i>versus</i> training programs are designed to be taught to employees in group settings.

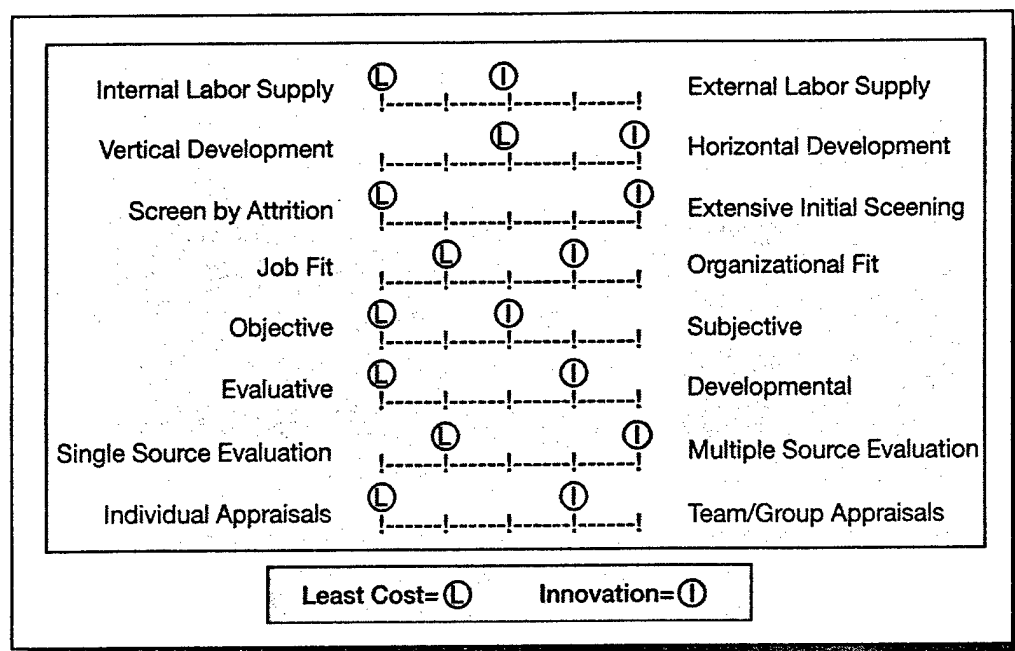
APPENDIX V

STRATEGIC CHOICES, POLICIES AND PRACTICES FOR ORGANIZATIONAL STRATEGIES OF LEAST COST AND INNOVATION

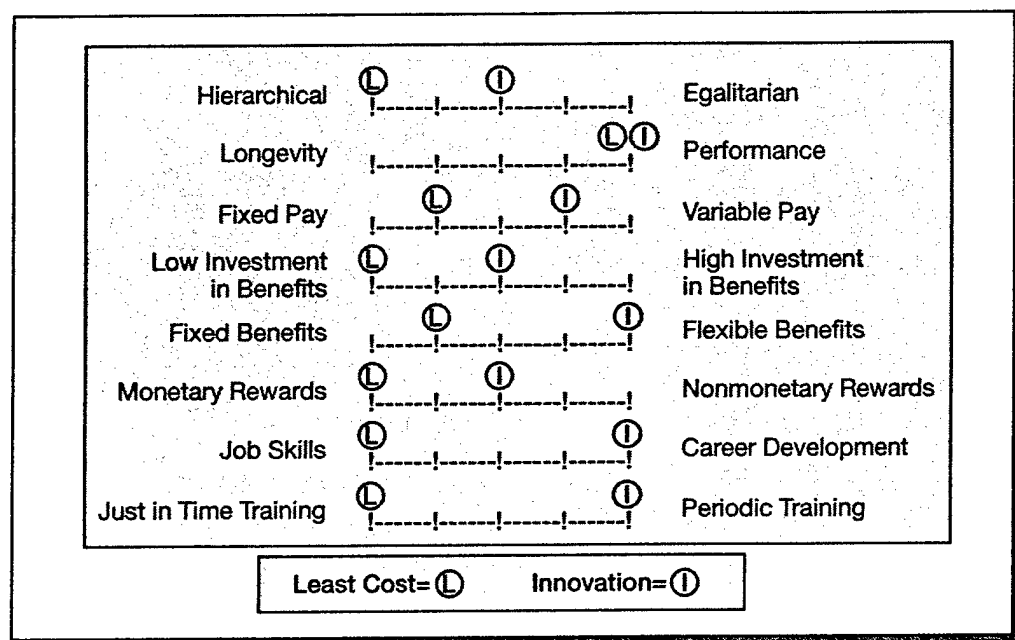
Appendix Figure V-1 through Appendix Figure V-3 compare the strategic choices made during the process of designing a human resource management system for organizational strategies of least cost and innovation. Selections were based on a review of the literature and internal discussions of how these strategies might apply in the uniformed services.



Appendix Figure V-1 – Strategic Choices: Culture and Organizational Design



Appendix Figure V-2 – Strategic Choices: Recruiting, Assigning, Promoting and Evaluating



Appendix Figure V-3 – Strategic Choices: Compensation and Training

Appendix Figure V-4 through Appendix Figure V-6 compare general characteristics of policies and practices of the current system with those that could result from organizational strategies of least cost and innovation.

Appendix V – Strategic Choices, Policies and Practices for Organizational Strategies of Least Cost and Innovation

	Current System	Least Cost	Innovation
Culture/ organizational design	<ul style="list-style-type: none"> • A strong value-based, highly traditional culture; selfless service • Collaborative • Short- to medium-term focus • Centralized control, decentralized execution • Hierarchical command and control; self-supporting operating units • Narrowly defined jobs 	<ul style="list-style-type: none"> • Risk averse • Individual effort • Short term focus • Low decision autonomy • Tight management controls; centralized • Narrowly defined jobs • People treated as a commodity; "it's a job, not a career" 	<ul style="list-style-type: none"> • Risk taking, experimenting • Collaborative • Medium to long term focus • Participatory, high decision autonomy • Very flat, teams are the fundamental unit of organization • Emphasis on roles rather than jobs • People are viewed as an asset and treated as such • Focused more on results than on the process

Appendix Figure V-4 – Policies and Practices: Organizational Design and Culture

	Current System	Least Cost	Innovation
Recruiting, assigning, promoting	<ul style="list-style-type: none"> • Significant screening • Narrow career path • Promote from within • Central selection • Up-or-out system 	<ul style="list-style-type: none"> • Minimal screening, high attrition • Minimal investment is important • Narrow career path • Promote from within • Manager selects 	<ul style="list-style-type: none"> • Intensive selection screening • Right decision is important • Broad roles • Internal and external • Manager selects
Evaluating	<ul style="list-style-type: none"> • Focus on potential and performance; compared to peers; subjective • Standard form; superior/others rate 	<ul style="list-style-type: none"> • Focus on results; short-term performance • Simple, standard form; superior rates 	<ul style="list-style-type: none"> • Team evaluation based on objectives; individual evaluation based on skills, behaviors • Multi-rated/peer input

Appendix Figure V-5 – Policies and Practices: Recruiting, Assigning, Promoting and Evaluating

	Current System	Least Cost	Innovation
Training and development	<ul style="list-style-type: none">• Extensive job and developmental training• Training required to progress• Used to instill norms and values	<ul style="list-style-type: none">• Job-specific training only, as needed• Initiated by manager	<ul style="list-style-type: none">• Broad content; available to all• Initiated by individual

Appendix Figure V-6 – Policies and Practices: Training and Development

APPENDIX VI

DESIGN AND CONSTRUCTION OF THE HUMAN RESOURCE MANAGEMENT STRATEGIC CHOICE MODEL

The model
codifies reasoning
about human
resource strategic
choices and
their links to
organizational
outcomes.

The model organizes the available information and knowledge about human resource management systems (behaviors, outcomes, relationships, etc.) into a logically consistent framework that allows a systematic evaluation of human resource management system designs. The model codifies reasoning about human resource strategic choices and their links to organizational outcomes.

Basis

The relationships in the model are based on a review of academic research and its applications to the components of human resource management (namely, compensation, personnel management and organizational design). This review resulted in an extensive but somewhat disjointed knowledge base. To better organize this knowledge, the results of the initial review were reduced to a set of propositions, or assertions, that connect human resource strategic choices to organizational results.

The initial pool of propositions varied in type and strength of underpinnings. At one end of the spectrum were purely theoretical propositions with no supporting empirical evidence. At the other end of the spectrum were purely empirical propositions, often from reports of human resource management practitioners, but lacking a theoretical basis.

This initial pool of propositions was reduced to a smaller, more manageable list. Each candidate proposition was evaluated. Selection favored those propositions with both a theoretical and empirical foundation. However, propositions supported by multiple theories, especially propositions derived from cross-disciplinary theories, were included. Also selected were empirical propositions with strong, continuing, and multiple-source support.

The final proposition list contains more than 300 assertions gathered from more than 100 primary and secondary sources. Appendix Table VI-1 displays an extract of the proposition list.

Appendix Table VI-1 – Examples of Propositions

REFERENCE NUMBER	INDEPENDENT VARIABLE	DIRECTION OF RELATIONSHIP	DEPENDENT VARIABLE	CATEGORY	SOURCE
1	screening	+	retention	personnel	Champy
2	autonomy	+	vertical skill development	leadership	Lawler in <i>Strategic Pay</i>
3	base pay	+	attract employees	compensation	Lawler in <i>Strategic Pay</i>
4	base pay	-	performance line-of-sight ¹	compensation	Lawler in <i>Strategic Pay</i>

The propositions show the effect of making a choice (the independent variable) on an organizational outcome (the dependent variable). For example, Lawler asserts that increasing (decreasing) base pay results in increased (decreased) attraction of employees (proposition 3 above). However, Lawler also asserts that increasing base pay (as a proportion of total pay) reduces performance line-of-sight (proposition 4 above).

The final proposition list is a distillation and synthesis of hypotheses, research, and knowledge that forms the basis of the interrelationships in the model.

General Overview

Using the proposition list, the information was grouped into three broad categories:

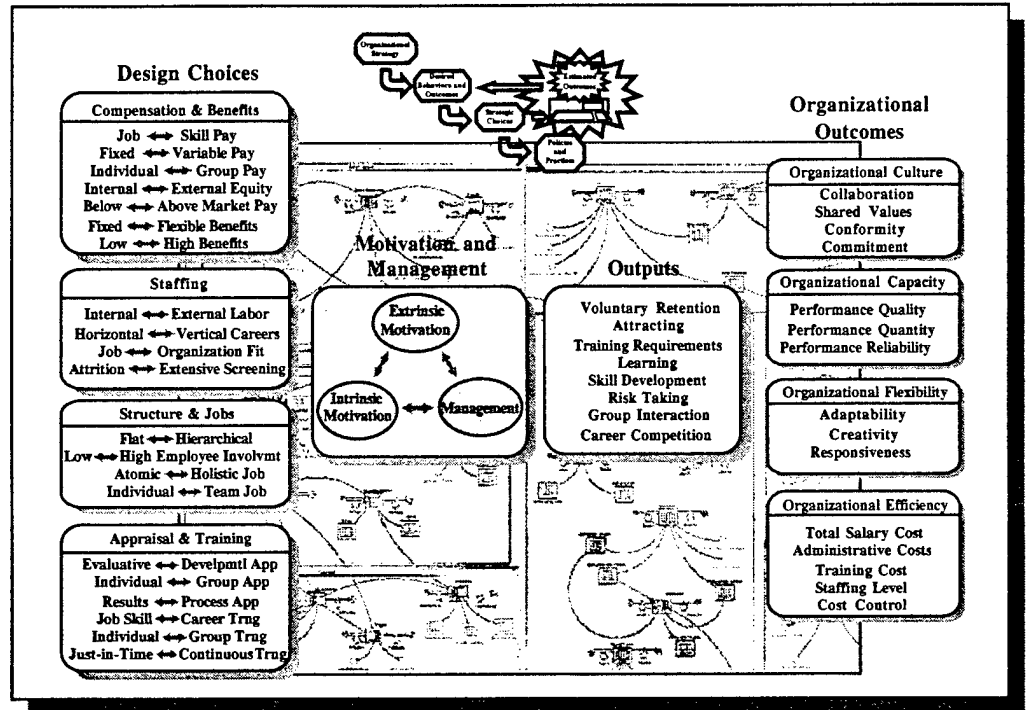
- Human resource strategic choices – independent variables that the human resource management system designer controls.
- Outputs – intermediate variables that may be of interest themselves or that influence organizational outcomes.
- Organizational outcomes – predicted dependent variables that summarize the impact of design choices on the organization.

Missing from many of the propositions was an explanation of *why* varying a strategic choice produced changes in an output or outcome variable. This was partially solved by using the results of Thomas and Jansen's ² research into intrinsic task motivation and self-management as well as the results of a review of other research concerning intrinsic and extrinsic motivation. Incorporating motivation and management into the model provided an explanatory bridge in many instances between human resource strategic choices and outputs or organizational outcomes. Appendix Figure VI-1 displays a general overview of the model.

¹ Performance line-of-sight refers to how directly the employee perceives that pay is tied to performing specific tasks.

² Thomas and Jansen.

Appendix VI – Design and Construction of the Human Resource Management Strategic Choice Model



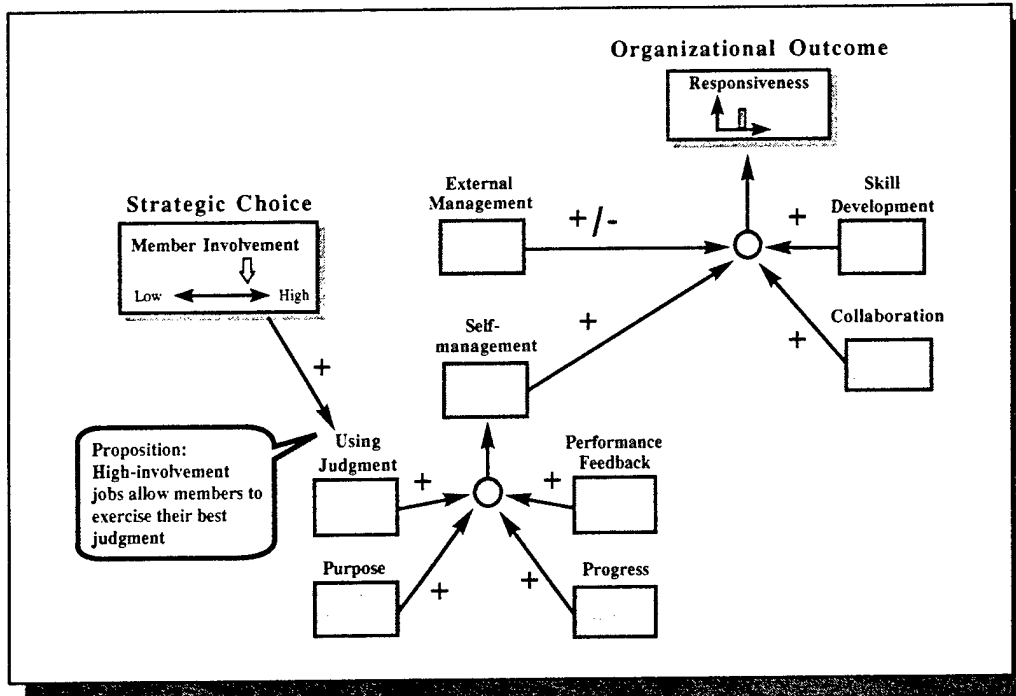
Appendix Figure VI-1 – Human Resource Management Strategic Choice Model

Model Construction

Using the proposition list and the motivation and management processes, linkages between the design choices, outputs and organizational outcomes were established. As an illustration of the model construction, consider the organizational outcome, “responsiveness,” defined as:

The degree to which the organization promptly reacts to demands or influences to adjust the type/quality of its product(s)/service(s).

As shown in Appendix Figure VI-2, responsiveness is a function of external management, self-management, skill development and collaboration. These relationships rely on propositions asserting that increasing (decreasing) self-management, skill development or collaboration will cause responsiveness to increase (decrease). According to the propositions, external management has a slightly different effect on responsiveness. Modest amounts of external management cause responsiveness to increase; however, excessive external management interferes with responsiveness and may slow reaction time.



Appendix Figure VI-2 – An Example of Internal Relationships

Appendix Figure VI-2 also displays Thomas and Jansen's construct for self-management. As can be seen, self-management increases as a function of the opportunity to use judgment, organize and work toward a purpose, monitor progress toward a goal and receive performance feedback.

This illustration demonstrates that different levels of responsiveness can result from adjusting the member involvement variable. Varying the level of member involvement directly affects the opportunity to use judgment and, hence, self-management, which in turn influences responsiveness.

Only one of the many relationships between the design choices and self-management is shown in Appendix Figure VI-2. The overall model contains 21 design choices, 8 outputs, 15 outcomes and over 150 relationships. The actual implementation of the model uses *ithink*®, a system-dynamics modeling package. Though fairly complex, the model is relatively transparent as a result of the modeling methodology selected. This permits results, expected and unexpected, to be explained fairly easily in terms of the relationships hypothesized to have caused them.

Calibrating the Model

Because the model could not be tested directly, a panel of human resource management experts refined the model and calibrated the results.

The panel conducted a series of reviews that examined each output, organizational outcome, and relationship represented in the model. The modifications recommended by the panel produced a refined model the members judged to have *prima facie* validity.

Appendix VI – Design and Construction of the Human Resource Management Strategic Choice Model

The model, offers for the first time, a logically consistent framework that can systematically evaluate human resource management system designs.

Two independent sub-panels of experts – not the same group who had refined the model – each designed four generic human resource management systems³ without using the model but considering the design choices, outputs, and desired organizational outcomes available in the literature. Subsequently, the two sub-panels carefully reviewed each other's designs and then produced four consolidated prototype human resource management systems.

Three of the four prototype systems were used as data in calibrating the model.⁴ The strategic choices underlying each prototype system were used as inputs to the model. The model results (outputs and outcomes) were then compared to those of the prototypes. If differences were observed, the weighting of individual propositions or relationships in the model were changed so that the model results converged with the experts' opinions. This process was conducted repeatedly until a common set of weights produced the appropriate results for each of the four sets of inputs. These weights became part of the baseline model.

The resulting model thus combines the results of research with the judgment of human resource management experts. Although in many cases the available information was incomplete, uncertain or inexact, this is also true of the practice of human resources management. In fact, human resource management systems are almost always designed – and even operated – based on partial knowledge, generalizations and inferences. The model, offers for the first time, a logically consistent framework that can systematically evaluate human resource management system designs. It is an operational tool for aligning the policies and practices of a human resource management system with the strategy of an organization.

Application of the Model

This section provides an overview of how the model can be used to design human resource management systems. A human resource management system to support an organizational strategy of innovation was designed to illustrate the process.

An organization pursuing a strategy of innovation can be characterized, in terms of organizational outcomes, as desiring high levels of:

- Adaptability – the ability of the organization to reorganize itself for a new mission or situation.
- Creativity – the ability of the organization to create new methods that improve the quality, quantity or efficiency of its performance or to create new products or services.
- Responsiveness – the promptness with which the organization reacts to demands or influences to adjust the type or quality of its products or services.

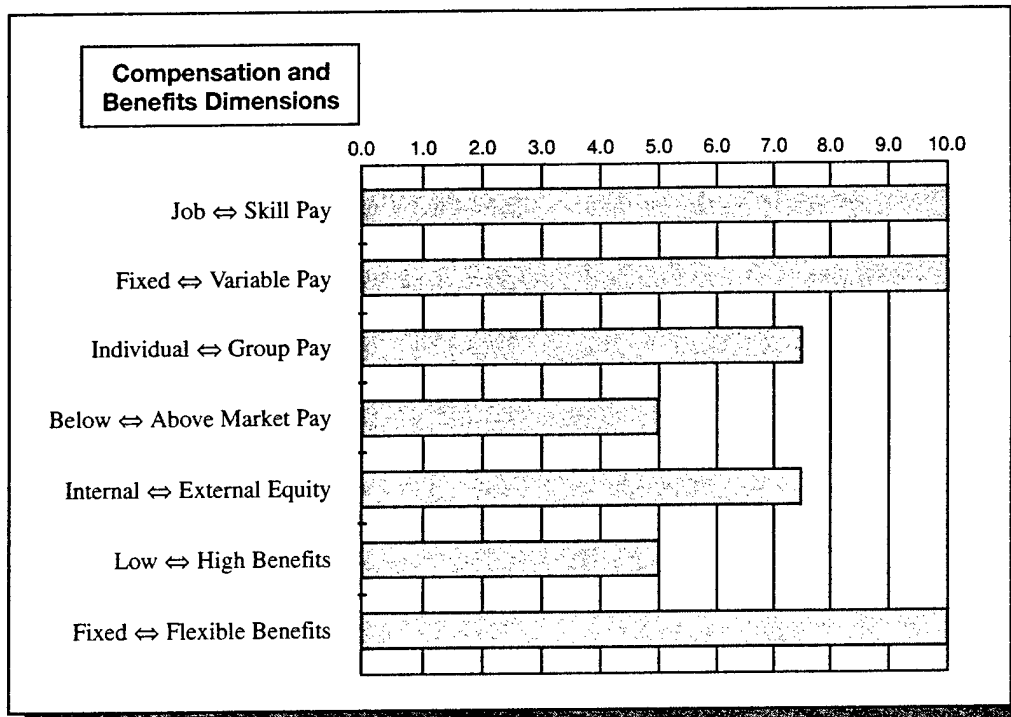
³ One generic system was designed to support each of the following organizational strategies: military effectiveness, innovation, least cost, and quality improvement/customer service.

⁴ Military effectiveness was not used to calibrate the model.

The model was run iteratively to refine the set of inputs (strategic choices along the dimensions that characterize a human resource management system) that will produce the increased levels of adaptability, creativity, and responsiveness while simultaneously evaluating the trade-offs in other organizational outcomes.⁵

Inputs

Each of the 21 dimensions (independent variables) included in the model can be thought of as a *continuum*. End points represent the extremes for each choice. Appendix Figure VI-3 displays just the compensation and benefit dimensions, as well as the possible settings for an organizational strategy of innovation. For example, the choice along the dimension, “Job \leftrightarrow Skill Pay” shown in Appendix Figure VI-3 determines the relative emphasis that is placed on job-based pay or skill-based pay in the design of the policies and practices for the compensation component of the human resource management system. The horizontal bar indicates, that for a strategy of innovation, skill-based pay is heavily emphasized relative to job-based pay. In contrast, the horizontal bar for “Low \leftrightarrow High Benefits” indicates the choice of an average (neither especially low or high) level of benefits.



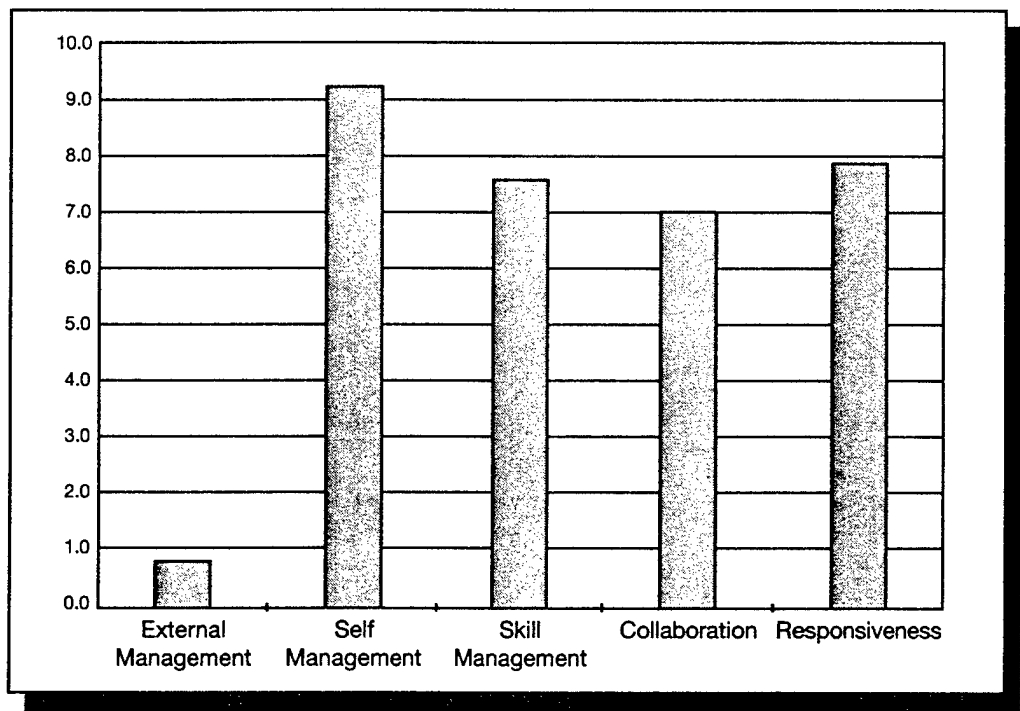
Appendix Figure VI-3 – Design Choices for an Organizational Strategy of Innovation

⁵ This example focuses on these three outcomes as the most important of the 15 included in the model as they apply to the strategy of innovation. The outcomes are affected through a complex set of relationships in the model; this requires trade-offs, which, in turn, requires identification and focus on the most important outcomes. In addition, the actual application of this process may require outcomes other than the 15 included in the model and reconfiguration of the relationships in the model.

Outcomes

The model calculates the relative impact on the organizational outcomes of choices along each of the 21 dimensions. Each output and outcome was measured along a continuous scale from 0 to 10. Values represent the “expected” level of outcomes based on the weighting of the propositions contained in the model.⁶

Appendix Figure VI-4 displays some of the results for an organizational strategy of innovation. For example, given the strategic choice inputs, the organization could be expected to exhibit relatively low levels of “external management.” The same design choice inputs should result in high levels of “self-management” and “skill development.” Similarly, these inputs results in high levels of “collaboration” and “responsiveness.”



Appendix Figure VI-4 – Results of Design Choices for a Strategy of Innovation

⁶ The weight of an individual proposition (Σ_i) is based on the odds ratio:

$$\lambda_i = \frac{O(H | E_i)}{O(H)}$$

where $O(H)$ is the prior odds of a variable H and $O(H|E_i)$ is the posterior odds of the variable H given additional information about variable E_i . A set of fuzzy inference rules combines the propositions weights (where necessary) and determines their overall weighting (Σ_e).

If the variables are considered independent:

$$\text{that is } \begin{matrix} E_1 \rightarrow H \\ E_2 \rightarrow H \\ \vdots \\ E_n \rightarrow H \end{matrix} \text{ then } \lambda_e = \prod_i \lambda_i$$

For conjunctions, where all variables must be present: that is $(E_1 \cap E_2 \cap \dots \cap E_n) \rightarrow H$ then $\lambda_e = \min(\lambda_i)$
 For disjunctions, where only one of several variables must be present: that is $(E_1 \cup E_2 \cup \dots \cup E_n) \rightarrow H$ then $\lambda_e = \max(\lambda_i)$. Σ_e is used to revise the value of the variable H .

Interpreting the Results

Because of the qualitative nature of the information and knowledge represented in the model, the results are also qualitative. The numeric scale used for the results is ordinal – in other words, values are used only as a means of arranging the *qualitative* results in order, from smallest to the largest. Only comparisons of “greater,” “less” or “equal” between values are valid.

For example, suppose one set of strategic choices resulted in a self-management value of 6 and a second set of strategic choices produced a self-management value of 2. In this case, the most that can be concluded is that the first set should produce “greater” levels of self-management than the second set. It would be *incorrect* to conclude that the first set of strategic choices results in levels of self-management three times greater than the second set.

In addition, comparisons between the effects of strategic choices on different outputs or outcomes are not appropriate. For example, it would be misleading to compare values on the dimension of “external management” to values on the dimension of “self-management.” Only comparisons of the effect of different strategic choices along the same output or outcome dimensions are appropriate.

That the model can not be used in the traditional sense of “predicting” the effect of changes in the policies and practices or that it lacks the “usual” empirical underpinning should not temper the unique and significant value it brings to the process of strategic alignment of policies and practices. The strategic decisions this model supports may have far more profound implications than many changes that can be evaluated with significantly greater accuracy (in large part because of their limited scope of effect). Although it would be ideal to have more quantitative assessments on which to make fundamental changes to the human resource management system, decisions can not wait for them to be developed (assuming that such assessments ever can be developed). The human resource management strategic choice model provides a substantial operational tool with which to conduct a structured, thoughtful analysis of an extraordinarily complex undertaking. True, it can not predict precise outcomes; but it can substantially inform the process and highlight potential areas that require greater testing before implementation of policies and practices or identify potential unintended consequences.

The human resource management strategic choice model provides a substantial operational tool with which to conduct a structured, thoughtful analysis of an extraordinarily complex undertaking.

APPENDIX VII

PAY FOR PERFORMANCE

This appendix describes the application of the human resource management strategic choice model to an issue in which there has been a great deal of interest expressed over the last several years: restructuring the uniformed services basic pay table to strengthen the signal to service members that performance is rewarded.

Background

The President chartered the 8th Quadrennial Review of Military Compensation, in part, to “recommend ways to reengineer those elements of the military compensation system that support readiness and quality of life initiatives” and to “expedite the adoption of new approaches that put people first and allow them to work better.” The Secretary of Defense, in support of the President, has committed the Department to support the “full pay raises allowed by law” through the Future Year Defense Plan, as well as to examine the possible benefits of “redistributing” pay raises.

... restructuring
the basic
pay table to
emphasize
promotion over
longevity as the
primary reason
for pay increases
will send the
positive signal
to every service
member that his
or her superior
performance is
valued and will be
rewarded.

The 7th Quadrennial Review of Military Compensation proposed a fundamental shift in philosophy when it recommended a basic pay table that moves toward “pay for performance.” As the 7th Quadrennial Review of Military Compensation observed, basic pay is (currently) the principal vehicle for recognizing performance, where performance is reflected in promotion to the next higher pay grade. Increases in the basic pay table stem from two sources: from years of service (longevity), which are unrelated to performance, and from promotion, which is widely accepted as resulting from superior performance. *Ad hoc* changes to the basic pay table over the past 45 years have distorted the relative importance of these increases so that longevity weighs more heavily than promotion. As a result, the dollar spread between pay rates of different grades at similar years of service is, in some cases, too small to produce a clear reward for promotion. Therefore, restructuring the basic pay table to emphasize promotion over longevity as the primary reason for pay increases will send the positive signal to every service member that his or her superior performance is valued and will be rewarded.

The proposed pay table would keep pay *levels* at any point in a member’s career approximately where they are today; however the *reasons* for pay increases throughout a career would shift from longevity toward promotion. Cumulative pay over a member’s career would remain the same or slightly higher for average or faster promotees in all services. Model results confirm that measurable retention effects would be very small, but in the right direction ¹ – the table would tend to improve retention among better performing members.

¹ A recent run of the DoD CAPM (Compensation, Accessions, and Personnel Management) Model validated this finding. Results are on the margin because an ACOL (Annualized Cost of Leaving) based model looks only at the total pay level and not the source of pay increases.

The proposed pay table would give more weight to promotion than the current pay table; less to longevity. Further, it would ensure that the size of pay increases for promotion are progressively higher from grade to grade, while longevity increases are smaller than increases for promotion and more uniform in size than in the current table. Over the course of a military career, a service member would receive a greater proportion of increases in basic pay from promotion than from longevity. For example, the proposed pay table would shift the proportion of increases in basic pay resulting from promotion from approximately 50 percent in the current enlisted pay table (with the other 50 percent resulting from longevity) to about 57 percent in the proposed pay table (with the other 43 percent resulting from longevity). The corresponding change in the officer table would be from 37 percent of the increase resulting from promotion (and 63 percent from longevity) in the current pay table to about 53 percent resulting from promotion (and 47 percent from longevity) in the proposed table. In the process, the proposed pay table would decrease instances of pay inversions – cases where a lower-ranking member receives higher basic pay than a higher-ranking member.²

Analysis of Pay for Performance

Pay for performance can be provided in two forms: merit pay and variable pay (pay-at-risk³). The major distinguishing characteristic is the permanency of the increase. In the first category, the increase for performance, once received, becomes a permanent part of the individual's fixed pay (in the case of service members, a permanent part of basic pay). Merit pay is usually received in the form of higher weekly, biweekly or monthly pay rates. In the second category, the increase for performance is based on the performance during the observed period, usually against a measurable objective, and it must be "re-earned" during the next observed period. Pay-at-risk is usually paid as a bonus, separate from fixed pay. The recommendations of the 7th Quadrennial Review of Military Compensation for restructuring the basic pay table fall into the first category.

Slightly different behaviors result from these two practices. The human resource management strategic choice model was used to evaluate the impacts of each of these two practices and then to assess whether changing *other* policies and practices could obtain more of the behaviors desired from pay for performance.

Inputs

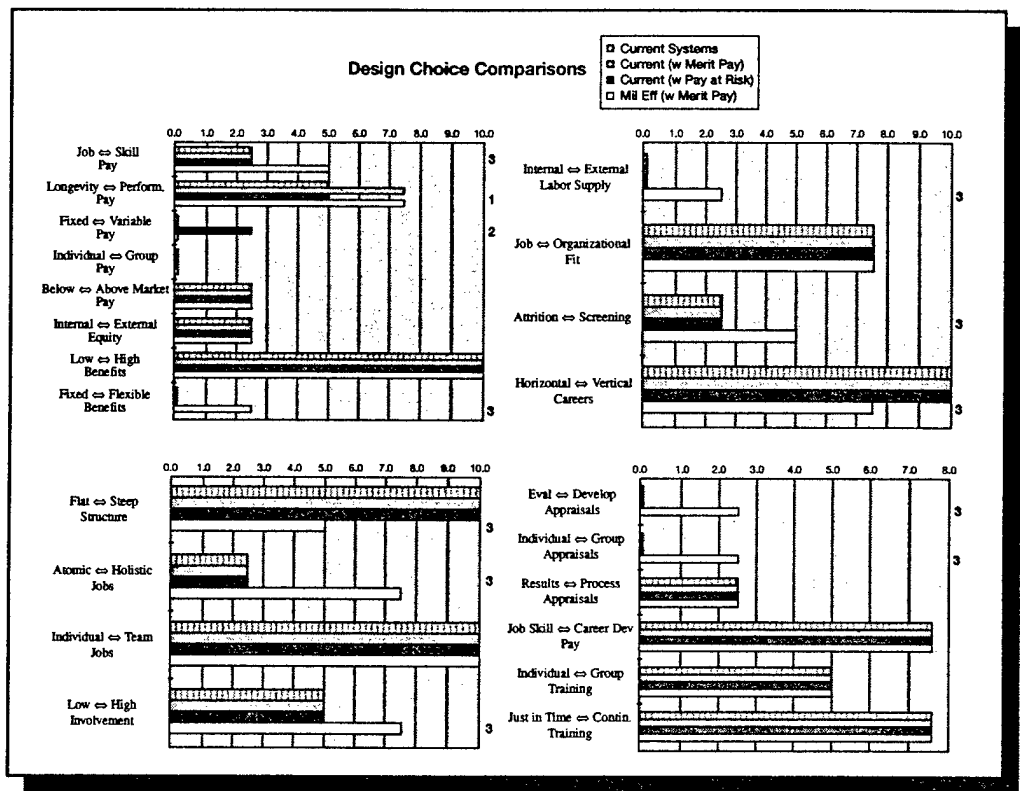
The inputs used for this analysis are shown in Appendix Figure VII-1. Each cluster of bars indicates the strategic choices made along each of the dimensions of a human

² For detailed analysis and discussions of the rationale behind the proposed restructured pay table, see the 7th Quadrennial Review of Military Compensation's report and the Major Topical Summary 2 – Basic Pay. These documents explain the care that was taken in restructuring each segment of the pay table (Officer, Enlisted, Prior-Enlisted, Warrant Officer, and General/Flag Officer) to maintain or improve important linkages that ensure the tables continue to support current service personnel management needs.

³ Variable pay is considered "at risk." In other words, the pay must be re-earned in order for the individual or the group to continue to receive it. A narrower definition refers to "pay-at-risk" only if it is variable and employees must reduce their fixed pay to participate in the program. This report uses the broader definition.

resource management system included in the model. The upper bar in each cluster reflects the input for the current system; the second bar reflects the current system with merit pay [note that only the second cluster – the dimension characterizing the relative emphasis on longevity and performance pay (merit pay) – shows a change from the current system in the second bar, denoted by a “1” in the margin]; the third bar reflects the current system with pay-at-risk [note only the third cluster – the dimension characterizing the relative emphasis on fixed and variable pay (pay-at-risk) – shows a change from the current system in the third bar, denoted by a “2” in the margin]; and the fourth bar reflects the set of integrated policies and practices that would increase the desired behaviors and decrease the undesirable outcomes from pay for performance (changes from the current system are denoted by a “3” in the margin).

For example, the first cluster in the upper left-hand chart indicates that pay for the job receives substantially more emphasis in the current system, as well as for the systems that only provide increases based on merit pay or pay-at-risk. However, to obtain more of the desired outcomes and to offset the undesirable outcomes from pay for performance alone, the integrated system increases the emphasis on pay for skills.



Appendix Figure VII-1 – Pay for Performance Inputs

Outputs/Outcomes

For a change that would *only* increase the emphasis on merit pay relative to longevity (as the proposal to restructure the pay table would do), the model suggests slight

gains in organizational performance quality, reliability of output, responsiveness and creativity (resulting from increased skill development, learning, self-management and conformity to desired behavioral norms). Long-term compensation costs should decrease slightly (those non-selected for promotion receive smaller longevity increases), and there is potential to slightly reduce staffing levels because of more self-management. Additionally, there should be a small increase in cost flexibility because the organization can control promotion selection (and, therefore, pay for performance increases) compared to longevity increases. All of these changes are in the desired direction, although they would probably be small recompense for the restructuring being considered. The model also suggests pay for performance (merit pay) would produce small changes in certain areas that may not be desirable (for example, decreased collaboration and commitment).⁴

Selected outcomes are shown in Appendix Figure VII-2. Each cluster of bars represents the impact of the three changes discussed above, compared to the current system.⁵ The first bar in each cluster reflects the outcomes of the current system with merit pay, the second bar reflects the outcomes of the current system with pay-at-risk, and the third bar reflects the outcomes of the integrated set of policies and practices that would increase the desired behaviors and decrease the undesirable outcomes from pay for performance.

Although it may have a positive impact, the effect of changing only one practice in the entire human resource management system (in this case, the emphasis on pay for performance) will be limited. The system is composed of a number of highly interdependent relationships. If only one practice is changed, the other parts of the human resource management system continue to engender the same behaviors as before the change – inhibiting, ameliorating or offsetting the effect of the single change. However, if desired behaviors are identified, policies and practices can be *aligned* to enhance the likelihood that these behaviors will be manifested as a result of the change and unintended consequences can be reduced.

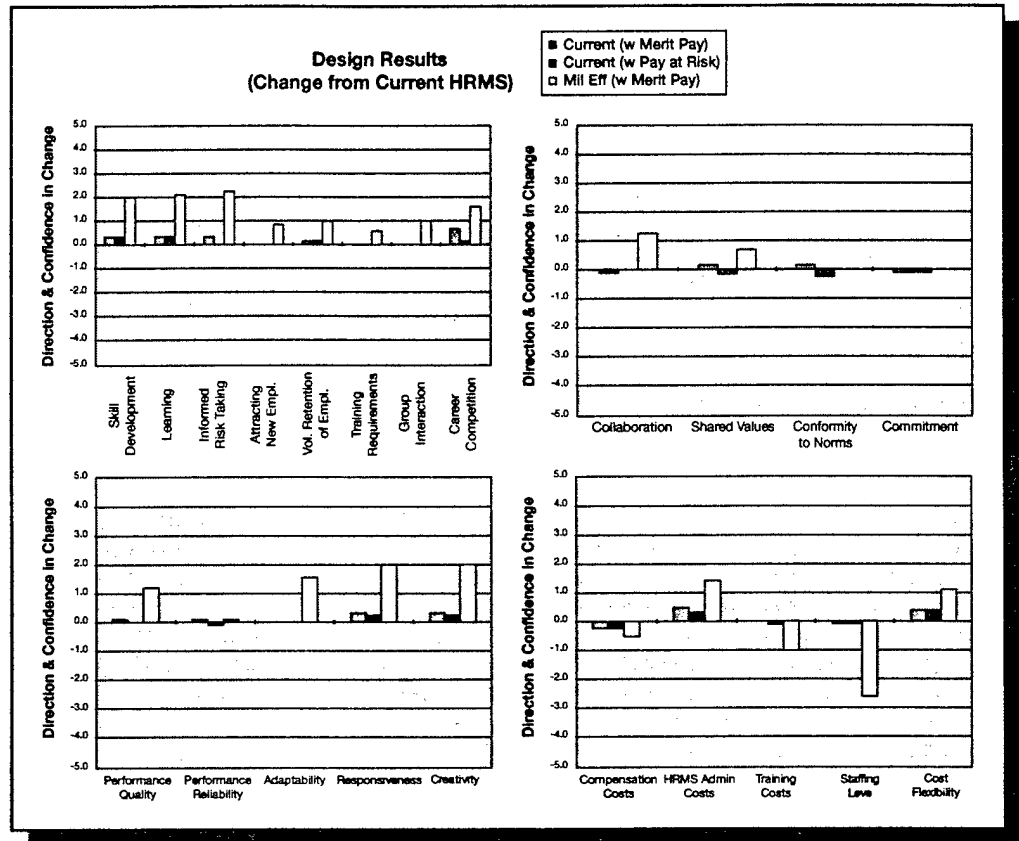
The model suggests the positive impact of pay for performance can be magnified and the adverse impacts decreased when other elements of the human resource management system are changed to enhance its effectiveness – for example, greater emphasis on horizontal (versus vertical) careers, developmental (versus evaluative) appraisals, inclusion of group (versus individual) performance in appraisals, and jobs designed to span entire processes (versus individual, specialized jobs).

... the positive impact of pay for performance can be magnified and the adverse impacts decreased when other elements of the human resource management system are changed to enhance its effectiveness ...

⁴ For a change that would *only* increase the emphasis on pay-at-risk relative to longevity, the model suggests a less positive picture, although again the effects are very slight. In particular, shared values, conformity to norms, commitment and performance reliability would decrease slightly; and responsiveness and creativity would not increase as much as under a pure merit pay system.

⁵ The height of the bars indicates the direction of change and the degree of confidence that the change will occur. It does not estimate the size of the effect.

Appendix VII – Pay for Performance



Appendix Figure VII-2 – Pay for Performance Outcomes

Although the impacts on retention and on other, less quantifiable, organizational outcomes are modest, restructuring the pay table is an initial, incremental, but potentially very important step toward a human resource management system that would markedly improve the effectiveness of the uniformed services.

APPENDIX VIII

TAILORED POLICIES AND PRACTICES

One of the characteristics of the current human resource management system for the uniformed services is the ability to transfer members between organizations. If organizations have different human resource management systems in the future, can this crossflow be maintained? Using the major components of a human resource management system introduced in Chapter 3, this appendix summarizes and compares the policies and practices arising from two different organizational strategies: innovation and military effectiveness.¹ The acquisition community is used as an example of where the first strategy might apply; the operational community as an example of where the second might apply.² It discusses service member movement between two such organizations and the common core that would need to exist in order to facilitate that flow without disadvantage to the service member. The policies and practices for the acquisition community, the policies and practices for an operational unit, and observations regarding how these two human resource management systems interface are described for each different major component – organizational design, staffing, performance management, development and compensation. A graphic at the end of each description summarizes the discussion.

Organizational Design

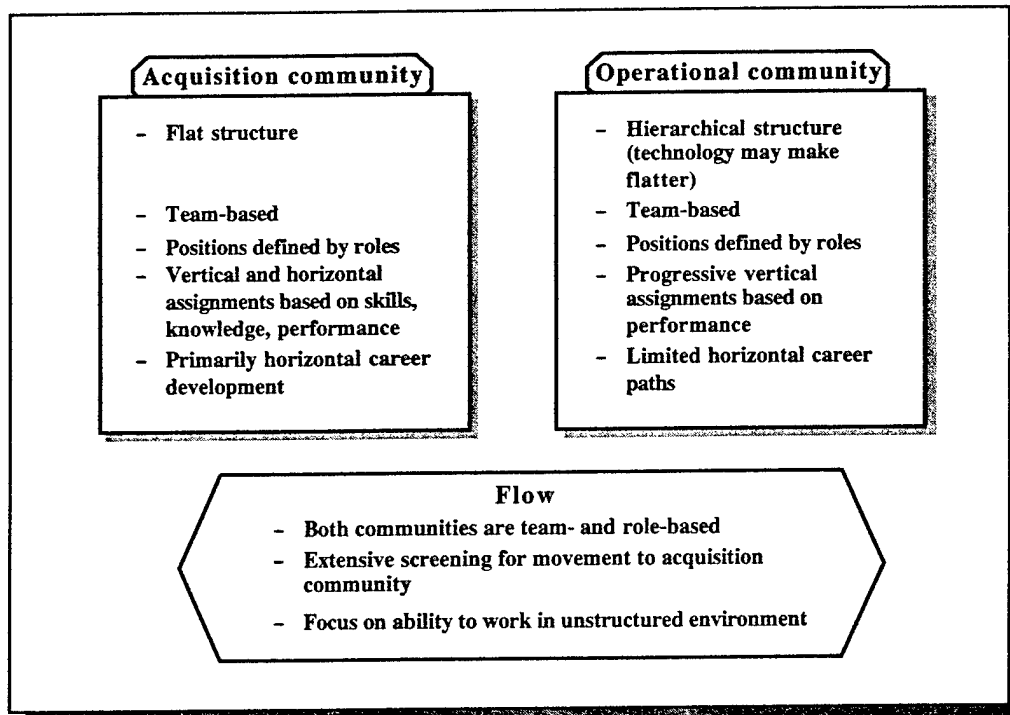
The *acquisition community* needs to adapt quickly to changing technological, fiscal and design requirements and is more open to the idea of rewarding risk-taking in order to achieve innovation. The organization employs a flat structure to minimize bureaucracy and enhance communication throughout the organization. It organizes into teams and, within teams, it emphasizes the roles of team members, based on their specific expertise and abilities (as opposed to defined tasks). That is, the abilities of the incumbents to contribute to the team objectives, rather than rank or grade, define roles within teams. The organization redesigns jobs to focus on specific responsibilities, and members perform a variety of duties and functions.

¹ 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach*, Chapter 7, contains a complete description of a human resource management system for organizations employing each of these strategies.

² Commonality is assumed within each of these two larger communities. However, internal variations exist within each of these major communities. For example, within the operational community, different sub-communities, such as the Marine Corps operational sub-community and the Navy aviation, surface warfare, and submarine operation sub-communities, each share the same general organizational strategy – military effectiveness – yet emphasize different organizational outcomes and, therefore, may require somewhat different human resource management choices, policies and practices. Therefore, over time, each of these operational sub-communities may refine their choices, policies and practices.

In contrast, though the *operational community* must also remain responsive to its changing environment, the need for high-performance reliability and quality takes priority over quick adaptation. This organization requires a larger number of, sometimes redundant, layers in the chain of command; it remains hierarchical. Rapid advancements in communication technology may flatten this organization, allowing fewer levels of command and broader spans of control; consequently, in the future, jobs might be designed more broadly, requiring members to perform a greater variety of functions. Roles rather than tasks define the work in this team-based organization.

The different structures of the two organizations are unlikely to have adverse impacts on service members moving between organizations, primarily because both are team-based with broadly defined jobs. Thoroughly screening service members assigned from operational units to the acquisition community minimizes problems associated with moving from a very hierarchical organization to one requiring more self-management and autonomous individual behavior. Appendix Figure VIII-1 summarizes the above discussion.



Appendix Figure VIII-1 – Tailored Flexibility: Organizational Design

Compensation

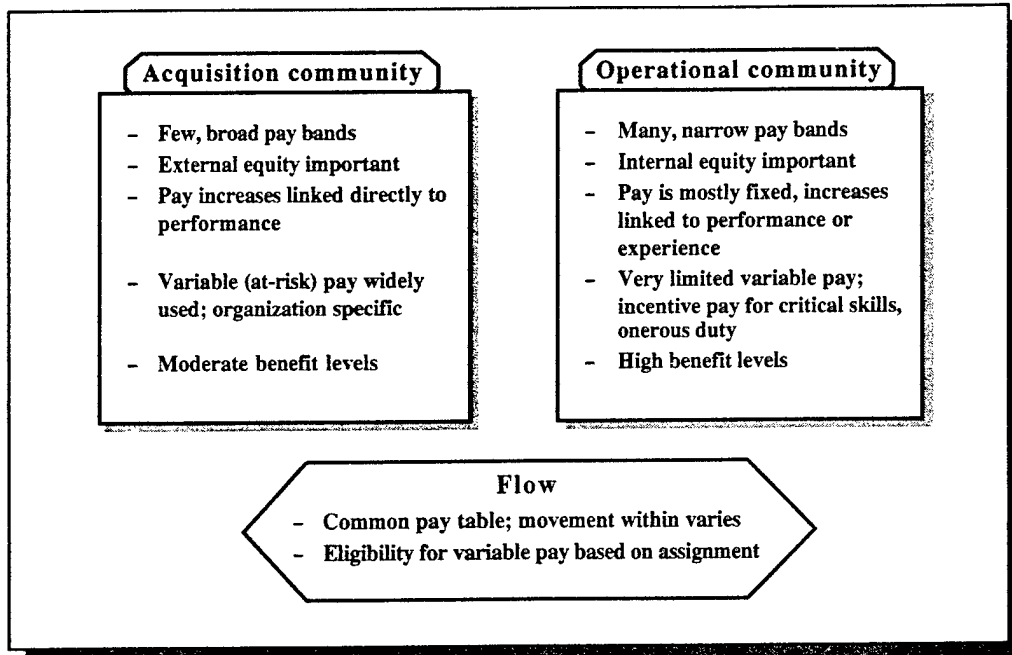
To recruit and retain the highly skilled people needed to perform in an *acquisition organization*, rewards must reflect contributions. The emphases on roles and on breadth of skills and knowledge as well as the need for a direct line-of-sight between rewards and performance require fewer, broader pay bands. This demands a direct

link between pay and the performance management process. An acquisition organization determines the number of “pay bands” and the width needed to accommodate its goals, and it establishes criteria for awarding pay increases. Variable pay is essential and is widely used in acquisition organizations to motivate and sustain high performance. Variable pay is tied to team output and rewards longer-term team and individual performance. Incentives also take the form of monetary or nonmonetary spot rewards that recognize specific outstanding behaviors or performance. The acquisition community determines the use, type, amount and award authority for incentive pays. Flexible benefit programs meet the personal needs of each member.

To reinforce commitment to the organization and promote cohesion, the *operational community* emphasizes internal equity much more than external equity; it clearly defines pay levels and broadly communicates them to all service members. Pay predominately takes the form of fixed (base) pay. The annual increase in the fixed component of pay differentiates between substandard and extraordinary performers, with the vast majority of service members receiving the average increase. The operational organizations carefully target incentive pay (similar to special and incentive pays or bonuses provided in the current system) to specific shortages or critical skills. It also use incentives to attract or reward service members who perform in onerous environments such as hazardous duty or sea duty. Pay for performance *per se* (namely, variable pay) does not exist in the operational community because it might compromise the egalitarian nature of the system. Very comprehensive benefit programs help bridge the pay gap but offer very little choice among benefits because the organization views its members as having similar needs and intends to “take care of its own.”

For relatively short assignments to the acquisition community (for example, to provide on-site consultation during critical test phases), the service member might remain under the human resource management system of the operational community. For longer tours (for example, to actively engage in the initial design phase for a major new weapon system), the service member falls under the human resource management system of the acquisition community – to motivate the behaviors desired in that community.

Although a common pay table applies to all organizations throughout the uniformed services, the acquisition community employs wide “bands” within the pay table (compared to the operational community) to meet the specific needs of that community. However, when a service member moves from an operational organization to an acquisition organization, the service member continues to be paid the same fixed pay as immediately before the assignment. While in the acquisition organization, the member receives annual increases based on the policies of the acquisition community (to encourage the behaviors desired in the acquisition community). On assignment back to the operational community, the service member continues to be paid the same fixed pay (including any increases acquired while in the acquisition organization). Members are also eligible for the variable pay programs available in the organization to which they are temporarily assigned – but only while assigned to that organization (again, to encourage the behaviors desired in the acquisition community). Appendix Figure VIII-2 summarizes the above discussion.



Appendix Figure VIII-2 – Tailored Flexibility: Compensation

Staffing

The *acquisition community* is composed of professionals, with very specific knowledge in acquisition processes and their relation to military operations and/or technical, scientific areas. Since this knowledge is a skill specific to members of this community, the organization tends to fill positions from internal sources. Hiring limited numbers of members with specific technical or scientific knowledge from outside the organization gives access to rapidly changing knowledge bases. Bringing expertise into the active forces from the reserves may provide the major and most attractive pool from which to draw these “external hires,” because using reservists increases the likelihood of a good organizational fit. Enhanced succession planning (identifying and developing future leaders in the acquisition community) plus developing strategic partnerships with technology-based private and public organizations benefits both organizations and service members. The acquisition organization recruits from operational units those individuals with significant technical knowledge gained from field operations. It evaluates other criteria, such as the ability to work collaboratively and within teams, prior to placement, to ensure individuals have the behavioral characteristics and competencies to effectively perform their role.

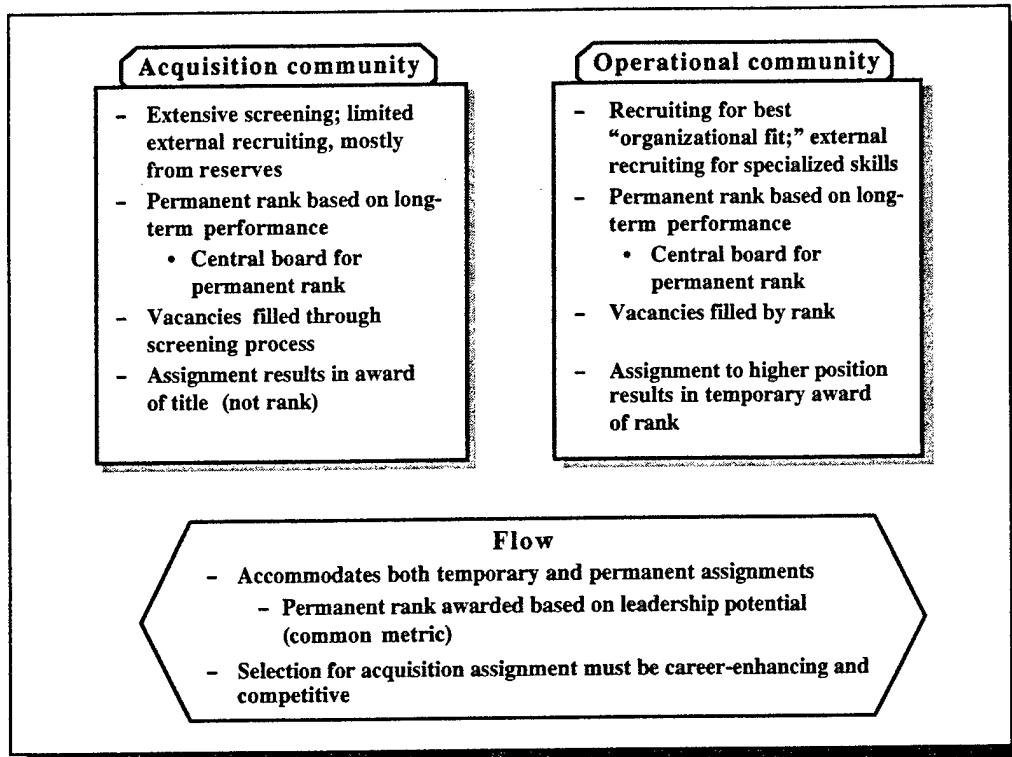
The *operational community* almost always fills positions internally, too. In this community, however, it is not due to specific knowledge requirements (though these requirements do exist). Rather, operational organizations place greater emphasis on how well service members fit with the desired organizational behaviors – in other

words, because of the overriding importance of maintaining military culture. It limits external fills to only very specialized skills; strategic alliances with other organizations through the reserve component improve the ability to obtain the specialized skills *and* the requisite military culture and values.

The *acquisition community* promotes service members based on long-term performance as reflected in performance assessments. To ensure broad organizational equity and maintain the advantages of economies of scale, central promotion boards composed of representatives from the organizations of eligible members make promotion decisions. Assignments within the acquisition community focus on career development, based on the service member's particular skills, knowledge and performance. Organizational need determines vertical or horizontal assignments. The acquisition organization offers very broad, lateral career paths that allow for horizontal career development. Generally, members of innovative organizations, because of their unique capabilities, remain in the community for most of their careers.

The *operational community* also assigns individuals to develop the skills of the service members; in a hierarchical organization, this generally means a vertical move. Broader, more horizontal career paths may evolve if the organization chooses to design work around roles rather than tasks.

Because the skill and knowledge requirements of the acquisition community are specific to that community, few service members pursuing a career in acquisition are ever assigned to the operational community. This is largely the case today, particularly after the ten-year point in a member's career. On the other hand, because of the requirement for operational experience in the development of weapon systems, the acquisition community does require a number of assignments from the operational community for tours of various lengths. As noted above, selection screening is a major consideration. The operational community continues to consider service members for promotion while they serve in the acquisition organization. The acquisition community establishes jobs the operational community considers career-enhancing. It offers assignments that are highly valued by operational community members and promotion boards. The very best service members aggressively compete for the assignments – and the rewards. Appendix Figure VIII-3 summarizes the above discussion.



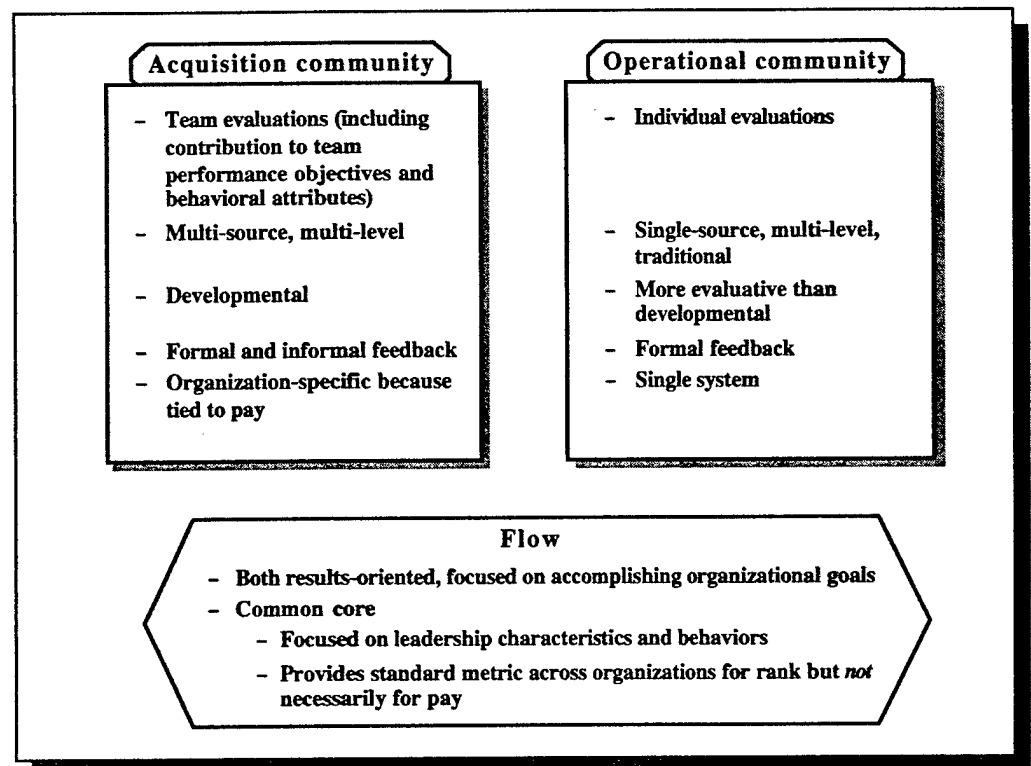
Appendix Figure VIII-3 – Tailored Flexibility: Staffing

Performance Management

In the *acquisition community*, the performance management system evaluates team members based, in part, on their contributions to team results and, in part, on how well the team accomplishes the overall goals and objectives of the organization. Team members evaluate each other's ability to work cooperatively on the team; team leaders evaluate team performance. Multi-source performance evaluations underscore the importance of collaboration and improve the overall accuracy of the evaluation. Performance management in this community is largely developmental, and feedback is a critical component. Team members and leaders provide feedback formally and, more often, informally. This community widely uses incentive programs based on individual and team performance (see above), thus requiring a portion of the performance management system to be devoted specifically to supporting the way work is done in the community.

In the *operational community*, the performance management system evaluates service members' contributions to the goals and objectives of the organization; though routine inspections and evaluations give indications of team performance, they are not part of the individual appraisal system. The primary purpose of the performance management system is evaluation for promotion; it focuses more on evaluation than development. Single-source performance evaluations support the hierarchical organizational structure. The system also includes formal feedback mechanisms.

Although aspects of the performance management system for each community differ, both are results-oriented and focus on accomplishing organizational goals. Service members flow from the operational community to the acquisition community and back without adverse effect. A common core of metrics focused on leadership characteristics and behaviors forms the basis for standardized comparisons of service members across the communities. This common core is the focus for promotion throughout the entire organization; however, it might not serve as the basis for development or incentive awards, which are based on other parts of the performance management system that vary between the two communities. Appendix Figure VIII-4 summarizes the above discussion.



Appendix Figure VIII-4 – Tailored Flexibility: Performance Management

Development

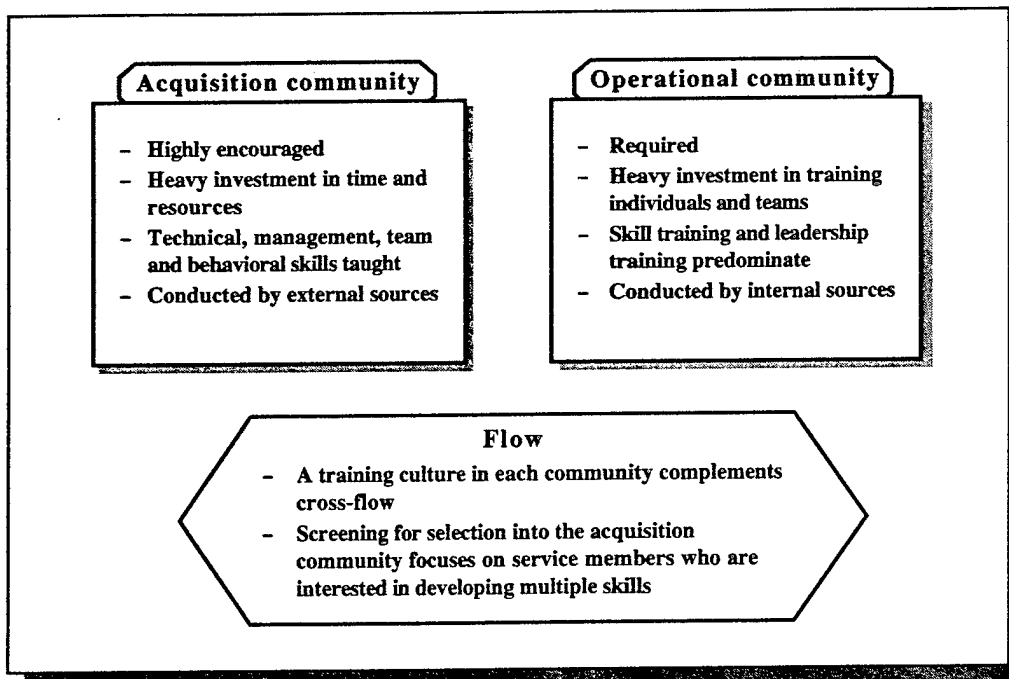
The *acquisition community* invests a great deal of time and resources to recruit, retain and continually develop highly skilled members. It expects service members to perform a variety of functions in their roles and provides the necessary training. Learning diversifies experience, skills and knowledge, fostering the creativity and innovation so necessary in this community; consequently, the acquisition organization encourages members to gain knowledge and affords many opportunities to do so. Focused on results-oriented outcomes, it values behavioral skills that enable members to work effectively in a team environment. Sources external to the organization conduct much of the training, which enables the organization to capitalize on

the changing nature of skills, knowledge, environment, and information affecting this community.

The *operational community* also invests substantial resources in training and developing service members and operational teams. When operational units are not executing missions, they are learning organizations, so training has a direct impact on performance reliability – one of the primary outcomes of the operational unit.

Three types of training predominate: socialization, skill training (including unit and physical training), and leadership training. Given the unique nature of military skills and culture, operational units rely primarily on internal sources to conduct training. Training and development give these individuals a common vocabulary and ability to share a similar world view. This is especially important in light of the emphasis on joint operations, where translation across service cultures must be instantaneous and error-free.

The emphasis on training in both communities complements the crossflow of service members between acquisition and operational communities. Training programs ensure service members quickly gain the skills and knowledge necessary to become proficient. Appendix Figure VIII-5 summarizes the above discussion.



Appendix Figure VIII-5 – Tailored Flexibility: Development

APPENDIX IX

THE ACQUISITION PROCESS

The 1986 Presidential Commission on Defense Acquisition (the Packard Commission) recommended that the acquisition community in the Department of Defense build a process and structure for presenting and resolving acquisition management issues.¹ It can serve as a pattern for the developing a strategic decision-making process for the department's human resource management community.

According to a DoD directive, "[t]he primary objective of the defense acquisition system is to acquire quality products that satisfy the needs of the operational user with measurable improvements to mission accomplishment, in a timely manner, at a fair and reasonable price."² In most cases, an acquisition program is initiated in response to a military threat, although in some cases, "economic benefits, new technological opportunities, or other considerations may cause new programs to be initiated."³

The remainder of this appendix focuses on three decision support systems and the Defense Acquisition Board, which underpin the acquisition decision-making process.

Acquisition Decision Support Systems

Acquisition policy is "intended to forge a close and effective interface among the Department's three principal decision support systems: (1) the requirements generation system, (2) the acquisition management system, and (3) the planning, programming, and budgeting system."⁴ All three systems are intended to work together to assist the Secretary of Defense, the Under Secretary of Defense for Acquisition and Technology and other senior officials in making critical, strategic decisions, allowing them to plan for the future, allocate resources to solve strategic issues, and monitor the activity that follows their decision making.⁵ Underlying these three related systems is a structure composed of the Defense Acquisition Board and the Joint Requirements Oversight Council.

Requirements generation is an ongoing process of assessing the capabilities of the current force structure to meet identified, documented and validated mission needs.⁶ When a mismatch is found between current force structure and the future

¹ President's Blue Ribbon Commission on Defense Management.

² U.S. Department of Defense, *DoD Directive 5000.1, Defense Acquisition* (Washington, DC: Department of Defense, March 15, 1996), p. 3.

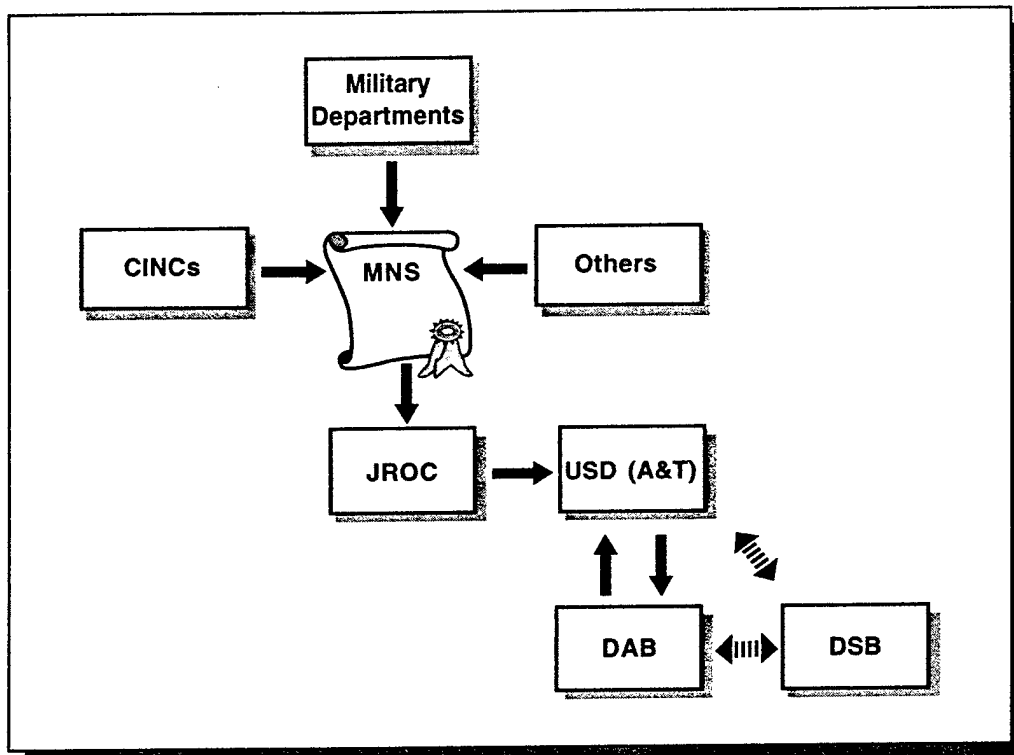
³ U.S. Department of Defense, *DoD Regulation 5000.2-R, Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs* (Washington, DC: Department of Defense, March 15, 1996), Part 2, p. 1.

⁴ U.S. Department of Defense, *DoD Directive 5000.1*, p. 4.

⁵ U.S. Department of Defense, *DoD Directive 5000.1*, p. 4.

⁶ U.S. Department of Defense, *DoD Directive 5000.2-R*, Part 1, p. 3.

threat, “nonmateriel” options are explored, such as training or changes to doctrine and tactics. If these options are not feasible, then “materiel” solutions (namely, a modification to a current weapon system or a new weapon system) are required. Such a requirement is documented as a Mission Need Statement (MNS), generated by the Army Training and Doctrine Command, the Navy’s Fleet CINCs and OPNAV staff, the Marine Corps Warfighting Center or the Air Force’s major operating commands. Mission Need Statements for “major”⁷ defense acquisition programs go to the Joint Requirements Oversight Council for approval and validation;⁸ then to the Under Secretary of Defense for Acquisition and Technology who decides, as chairman of the Defense Acquisition Board, whether to initiate “concept direction” studies.⁹ Appendix Figure IX-1 illustrates this process.



Appendix Figure IX-1 – Requirements Generation System

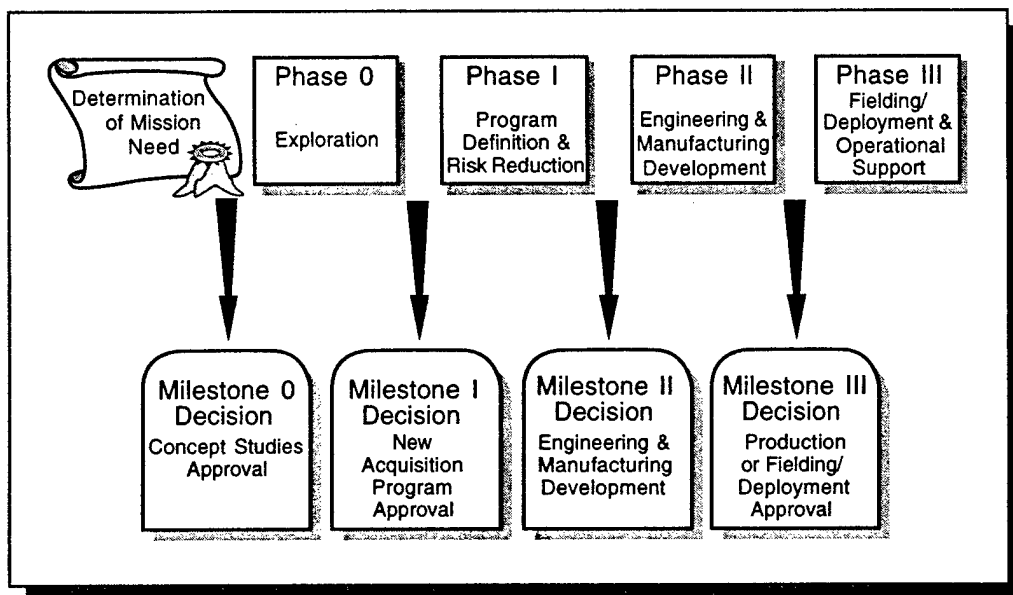
The requirement then moves into the **acquisition management system**, which consists of milestones, beginning with the exploration of alternative concepts and continues through developing, producing, deploying, supporting and disposing of a system. Defense systems often take 12-15 years from the issuing of a Mission Need Statement

⁷ The designation, “major,” depends on the levels of research and development or procurement expenditure on the weapon system, as defined in DoDD 5000.1.

⁸ Since 1995 the role of the Joint Requirements Oversight Council has expanded from just review and validation of requirements for future military capability to include assisting the Chairman of the Joint Chiefs of Staff in assessing current warfighting capabilities and evaluating the match between program recommendations and budget proposals with military priorities.

⁹ Structures and processes like the Joint Requirements Oversight Council and Defense Acquisition Board are found *within* the services for Mission Need Statements of lesser value or importance.

to the fielding of a system.¹⁰ Funding for concept studies that occur in Phase 0 is taken from various sources including the services' science and research labs. It is not until Phase I that service funding of the program begins through the planning, programming and budgeting system; and this step marks program initiation.¹¹ The progress of the weapon system acquisition is monitored via milestone reviews, which are required before the acquisition process can continue into the next phase. Appendix Figure IX-2 illustrates this system.



Appendix Figure IX-2 – Acquisition Management System

Funding for a major weapon system occurs through the **planning, programming and budgeting system (PPBS)**. The planning phase, the responsibility of the Under Secretary of Defense for Policy [USD(P)], culminates with the publication of the Defense Planning Guidance (DPG). The programming phase, managed by the Director, Program Analysis and Evaluation, culminates with submission of a Program Objectives Memorandum (POM). A Program Objectives Memorandum is a service's or defense agency's forecasted need for resources to accomplish its mission. The budgeting phase, the responsibility of the DoD Comptroller, culminates in Budget Estimate Submissions from the services and defense agencies, which are consolidated into the Department of Defense portion of the President's budget. The Defense Resources Board (DRB), chaired by the Deputy Secretary of Defense, is the decision body that resolves major budget conflicts. As a member of the Defense Resources Board, the Under Secretary of Defense for Acquisition and Technology exerts considerable influence over the planning, programming and budgeting process.

¹⁰ Joseph H. Schmoll, *Introduction to Defense Acquisition Management* (Ft. Belvoir, VA: DSMC Press, March 1993), p. 25.

¹¹ This approval process has no direct role in the PPBS process, but informs the program office that prepares the budget submission.

The Defense Acquisition Board (DAB)

The Defense Acquisition Board was established in order to make “an informed trade-off between user requirements, on one hand, and schedule and cost, on the other” – that is, trade-offs between operational requirements, costs and schedules – and to take a strategic perspective, challenging user requirements.¹² Members of the Defense Acquisition Board are:

- Under Secretary of Defense (Acquisition and Technology) (Chair).
- Vice Chairman, Joint Chiefs of Staff (Vice Chair).
- Principal Deputy Under Secretary of Defense (Acquisition and Technology).
- Under Secretary of Defense, Comptroller.
- Assistant Secretary of Defense (Strategy and Requirements).
- Director, Program Analysis and Evaluation.
- Director, Operational Test and Evaluation.
- Acquisition Executives of the Army, Navy and Air Force.
- Cognizant Overarching Integrated Product Team Leader.
- Cognizant Program Executive Officer and Program Manager.
- Defense Acquisition Board Executive Secretary.¹³

Through the Defense Acquisition Board, the operational and acquisition communities explore alternatives together, thus creating an integrated process for introducing new technology into the field. The process informs strategic decisions of the Under Secretary of Defense for Acquisition and Technology.

The Defense Acquisition Board interacts with the three principal decision support systems (requirements generation; acquisition management system; planning, programming and budgeting system) at various points in the process. During **requirements generation**, following approval and validation of the Mission Need Statement by the Joint Requirements Oversight Council, the Under Secretary of Defense for Acquisition and Technology decides, as chairman of the Defense Acquisition Board, whether concept direction studies should be initiated (Milestone 0). Usually several concept studies are initiated in parallel and focus on defining and evaluating the feasibility of alternative ideas that resolve the mission need. Concept studies also lay out a basis for evaluating success or failure of the concept against pre-determined performance metrics, so that the merits of early prototypes can be evaluated.¹⁴

¹² President's Blue Ribbon Commission on Defense Management, p. 57.

¹³ U.S. Department of Defense, *DoD Directive, 5000.2-R*, Part 5, p. 1.

¹⁴ U.S. Department of Defense, *DoD Directive 5000.2-R*, Part 1, p. 4.

The Defense Acquisition Board monitors the life-cycle process within the context of the **acquisition management system**. Typical issues discussed in a Defense Acquisition Board meeting include cost growth, schedule delays, technical threshold breaches, supportability issues, acquisition strategy, threat assessment, test and evaluation highlights, cooperative development/joint service concerns, manpower evaluation and operational effectiveness/suitability.¹⁵ The Under Secretary of Defense for Acquisition and Technology, with the Defense Acquisition Board, approves a program to proceed through the milestones as phases are completed. The Joint Requirements Oversight Council, chaired by the Vice Chief of the Joint Chiefs of Staff, assists the Defense Acquisition Board through the milestone process by presenting the operational needs and validating performance goals and program baselines.

The Defense Acquisition Board monitors the funding for the new weapon system acquisition through the **planning, programming and budgeting system**, which results in the Future Years Defense Program. The Under Secretary of Defense for Acquisition and Technology is briefed on the funding available for that program contained in the Future Years Defense Program most recently approved by the Secretary of Defense. The Defense Acquisition Board also discusses the best possible “acquisition strategy”¹⁶ to implement the program along with alternative preferred strategies in case program funding changes. If the Under Secretary of Defense for Acquisition and Technology does not believe that the approved Future Years Defense Program represents appropriate funding, then the service commits to incorporate appropriate funding in the next Future Years Defense Program.

¹⁵ Schmoll, p. 19.

¹⁶ “Acquisition strategy” is a term used in the acquisition community for the planning documents that serve as the roadmap of program execution from program start to deployment and logistical support. The goals of the strategy are to minimize the time and cost of satisfying an identified need.

GLOSSARY

align – To organize and direct the elements within the human resource management system (for example, rewards, recruiting, job design and performance evaluation) such that they interact with and complement each other, together supporting the organizational strategy.

aligning mechanism – A means used to focus the attention of all parts of the organization toward achieving the strategic intent.

broad banding – A program that consolidates a number of salary ranges or levels of base pay into fewer and wider pay bands. Pay varies among individuals within a band based on an individual's skills, knowledge and experience, and individual or team performance.

change agent – A role performed by human resource leaders who work as a catalyst for change in moving the organization toward the accomplishment of its vision.

competency-based pay – An alternative to traditional job-based pay that sets pay levels based on how many skills employees have or how many jobs they potentially can do, not on the job they are currently holding. Also called pay for skills, pay for knowledge and knowledge/skill-based pay.

contingency theory – A systems design theory that states there is no one best organizational form to fit all occasions; rather, design choices and decisions should be contingent upon changes in environmental conditions and mission.

core competency – An aligning mechanism that uses an organization's comparative advantage to focus the actions of the organization on its strategic intent.

core process – An aligning mechanism that uses a central process in the organization, such as a production process, to focus the actions of the organization on its strategic intent.

cultural change – A change that affects the complex pattern of beliefs, expectations, ideas, values, attitudes and behaviors shared by the members of an organization.

customer service strategy – An organizational strategy focused on providing exceptional customer service to improve performance.

dimension – Dimensions, which can be viewed as continua between two poles (for example, internal vs. external labor supply), characterize the principal features of the human resource management system. Once planners have determined desired behaviors, they can make strategic choices along these dimensions to obtain the desired behaviors.

element – An identifiable piece of the human resource management system – for example, rewards, recruiting, job design and performance evaluation.

flexible benefits – A plan that gives employees choices in the types and amounts of various fringe benefits they receive. Also called cafeteria-style benefits.

function – A distinct component or department in the structure of an organization. Examples of functions are Human Resource Management, Engineering, Marketing, Sales, Purchasing, etc.

functional expert – One who specializes in a particular function. In many organizations, the Vice President of a particular function, for example, the Vice President for Human Resource Management, might be a functional expert.

gainsharing – Gainsharing plans are based on a formula that shares some portion of gains in productivity, quality, cost effectiveness or other performance indicators. The gains are shared in the form of bonuses with all employees in an organization (such as a plant). It typically includes a system of employee suggestion committees. It differs from profit sharing in that the basis of the formula is some set of local performance measures, not corporation profits.

human resource management system – The complete set of human resource policies and practices. The human resource management system includes the components: compensation, development, organizational design, performance management, and staffing.

individual incentives – Bonuses or other financial compensation tied to short-term or long-term individual performance.

innovation strategy – An organizational strategy that focuses on being the first to bring new and different products to the marketplace to improve organizational performance.

integrate – To organize and direct the functions (for example, human resource management, information systems, financial systems) within an organization such that they interact with and complement each other, together supporting the organizational strategy.

job enrichment – Design of work that is intended to increase worker performance and job satisfaction by increasing skill variety, autonomy, significance and identity of the task and performance feedback.

knowledge/skill-based pay – An alternative to traditional job-based pay that sets pay levels based on how many skills employees have or how many jobs they potentially can do, not on the job they are currently holding. Also called pay for skills, pay for knowledge and competency-based pay.

least cost strategy – An organizational strategy that focuses on meeting defined standards at the lowest cost possible.

merit pay – A pay system that awards periodic, permanent increases in pay based on individual performance as measured by the appraisal system.

military effectiveness strategy – An organizational strategy that focuses on maximizing readiness as a means to succeed on the battlefield.

organizational effectiveness – A measure of how well an organization achieves its strategic goals. Measures of effectiveness in the private sector include market share, growth, and return on equity. In the public sector, measures of effectiveness include response time, customer satisfaction, and readiness.

organizational strategy – A method, originally developed by Michael Porter, of aligning the policies and practices of the human resource management system. Porter assumed the organization's goal was to maximize profit (Profit = Revenue minus Cost). Given this assumption, an organization can choose either to differentiate its products in such a way as to maximize revenue (thus the organizational strategies of innovation, quality improvement, and customer service) or to minimize cost (thus the strategy of least cost). In the uniformed services, another strategy, called military effectiveness, is used to align the elements of the human resource management system for operational units.

outcome – Dependent variables that summarize the impact of strategic choices on the organization.

output – Intermediate variables that contribute to or influence organizational outcomes, but that typically have no intrinsic value in and of themselves.

pay-at-risk – Variable pay is considered "at risk." In other words, the pay must be re-earned in order for the individual or the group to continue to receive it. A narrower definition refers to "pay-at-risk" only if it is variable and employees must reduce their fixed pay to participate in the program. This report uses the broader definition.

pay for knowledge – An alternative to traditional job-based pay that sets pay levels based on how many skills employees have or how many jobs they potentially can do, not on the job they are currently holding. Also called pay for skills, knowledge/skill-based pay and competency-based pay.

pay for skills – An alternative to traditional job-based pay that sets pay levels based on how many skills employees have or how many jobs they potentially can do, not on the job they are currently holding. Also called knowledge/skill-based pay, pay for knowledge and competency-based pay.

policies and practices – Specific direction, guidance, rules, and procedures that govern the operation of the elements of the human resource management system; collectively, they comprise the human resource management system.

profit sharing – A bonus plan that shares some portion of corporation profits with employees.

quality improvement strategy – An organizational strategy that focuses on providing exceptional quality to improve organizational performance.

role behavior – General kinds of characteristics and behaviors throughout the organization that contribute directly to achieving the organizational strategy and are closely related to the character or culture of the organization. This does not mean every individual within the organization should display the desired role behavior; only that individuals collectively do so.

self-managing work teams – The work group (in some cases, acting without a supervisor) is responsible for a whole product or service and makes decisions about task assignments and work methods. The team may be responsible for its own support services such as maintenance, purchasing and quality control and may perform certain personnel functions such as hiring and firing team members and determining pay increases. Also termed autonomous work groups, semi-autonomous work groups, self-regulating work teams or simply work teams.

service member champion – A role performed by human resource leaders by advocating the position and interests of service members.

strategic – Important; related to the fundamental direction of an organization or to its underlying structure or function.

strategic alignment – To be congruent with the strategy of a higher level of the organization.

strategic approach – To design the activities of an organization using an explicit strategy.

strategic choice – A fundamental choice about the human resource management system. The strategic choice is made along dimensions that characterize the human resource management system. Strategic choices guide the development of policies and practices to produce a human resource management system.

strategic human resource management – A disciplined effort to produce fundamental decisions and actions that shape and guide what a human resource management system is or will become, what it does or will do, and why it does it or will do it.

strategic intent – The general direction in which an organization will move to achieve its purpose, mission, and vision.

strategic partner – A role performed by human resource leaders together with other leaders in the organization in focusing on achieving the organization's purpose, mission, and vision.

strategic perspective – To view the activities of an organization in the context of its stated strategy.

strategy – The means an organization uses to achieve its purpose, mission and vision, given its resources and capabilities.

succession planning – A process for identifying and developing the future leaders of an organization.

Glossary

system design – The process of taking desired organizational outcomes and determining what policies and practices the organization should implement to achieve the desired outcomes.

variable pay – Variable pay is considered “at risk.” In other words, the pay must be re-earned in order for the individual or the group to continue to receive it. A narrower definition refers to “pay-at-risk” only if it is variable and employees must reduce their fixed pay to participate in the program. This report uses the broader definition.

vision – An image of what the organization *could be* in the future. It provides a goal to strive for and a benchmark for measuring progress.

work cultures – An aligning mechanism that uses an organization’s customs or ethos to focus the actions of the organization on strategic intent.

work group or team incentives – Bonuses or other financial compensation tied to short-term or long-term work group, permanent team or temporary team performance.

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